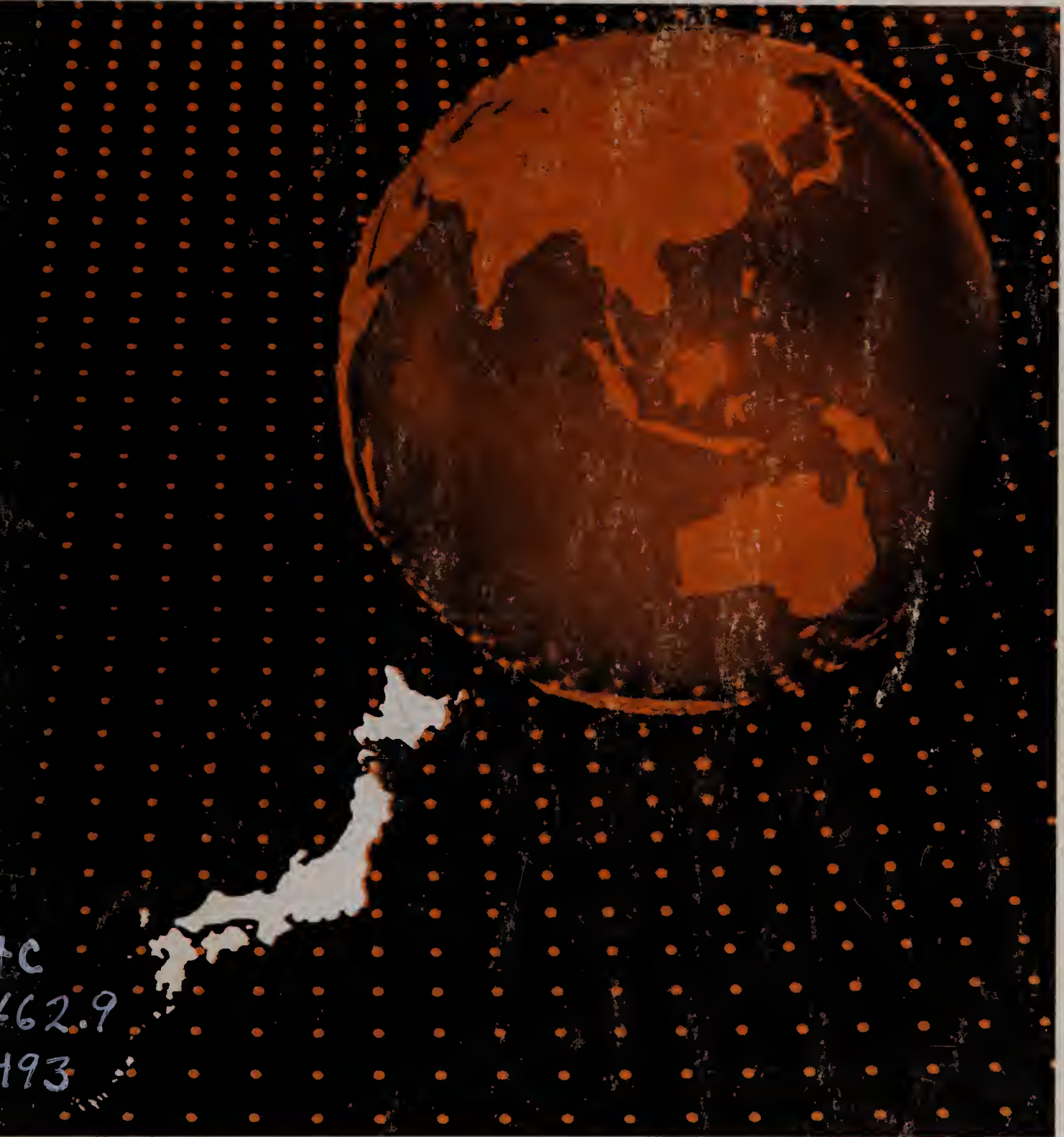


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JAPAN

Lessons in Enterprise



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JAPAN

Lessons in Enterprise

Warren S. Hunsberger

School of Advanced International Study
Johns Hopkins University



PREFACE

WANTS, NEEDS, AND DECISIONS

People everywhere want more food, clothing, houses, schools, leisure time, and other things that make for a better life. To produce these things, every society needs many kinds of resources—natural resources, such as water, land, and the other things which nature provides; human resources, or the people of the country; capital resources, such as machines, tools, and knowledge. In all countries these resources are scarce—no society, no matter how rich, has enough of all these resources to satisfy all the wants of its people. So it must somehow make the best use of what it has to produce as much as possible of the things people want. In trying to do this, a society must make certain basic decisions.

First the people of a country must decide what goods and services will be produced, and how much of each. Also, because their resources are limited and can be used in different ways, people must determine what kind of work their scarce resources will do. For instance, should a country use its timber (one kind of resource) to produce lumber for building houses, or paper for printing books, or fuel for heating? Or should it leave the timber standing as a national park? If it doesn't have enough timber to satisfy all these needs, then how much should be used for each purpose?

An available piece of land might be used as a farm for growing corn or soybeans, as a site for a school, as a roadbed for a railroad, or as a public park. Workers (another kind of resource) can also work in different ways. They may teach school, work on farms, do research in laboratories, or run machines in factories. They also can be employed in the armed forces, producing a product called national defense.

Within limits, resources like tools, machines, and factories can also be used in different ways. For example, they may be used to make other tools and machines or to produce bicycles,

clothes, automobiles, and television sets.

People also desire many things that they use in common with others in their society—schools, highways, fire and police protection, sewer systems, public parks. Goods and services of this type are called social goods. Usually the government provides such goods. Still, the society must decide to use some of its limited resources to produce social goods, rather than to produce private things that individuals would buy and use. A man cannot work as a policeman protecting society and at the same time work in a factory making automobiles. A piece of land cannot be used for both a park and a farm.

Because many products can be produced in different ways, a society has to decide in what way products will be produced. It takes fewer workers to dig a ditch with shovels than by using only their hands. By using a ditch-digging machine, even fewer workers can do the job. A thousand bushels of corn can be produced by using a large amount of land and labor, combined with a small amount of fertilizer and machinery. But the same amount of corn can also be produced by using smaller amounts of land and labor and larger amounts of fertilizer and machinery. In each case, a different combination of economic resources is being used to turn out the same product.

The combination of resources used in digging ditches, growing corn, or producing many other things depends on skill and knowledge and on the amounts of different resources available. If a country does not know how to make fertilizer, or if it does not have a ditch-digging machine, the number of ways its resources can be combined is reduced. The important point is that many products can be produced in different ways, and people have to decide how to combine and use the resources available.

Any country must also make decisions on how all the goods and services that are produced will be shared among its people. Many social goods and services, such as national defense, or fire protection, are not actually distributed to individuals. But what about other things? Should everyone receive the same

amount of money or clothes or television sets? Should the nation's output be distributed on the basis of need? Should each person's share of goods and services depend on what he contributed to producing them? Or should some other yardstick—such as tradition, custom, age, or position in the community—be used as a guide? Some social arrangement must be developed for deciding who gets what and how much.

If the people of a country want a better life, if they want more homes, clothes, food, and other goods and services, they must increase their ability to produce them. The question of how this can be done is called the problem of economic growth. Most countries of the world want to achieve more rapid economic growth. To do this, they must find ways of making decisions to use their resources to increase the knowledge and skills of the people, to find more natural resources, and to add to their stock of tools, machines, factories, roads, and dams.

The basic decisions we have mentioned must be made in all countries. To summarize, each country must decide:

1. What and how much to produce
2. How to combine and use resources in production
3. Who will get what and how much
4. How to maintain and expand the standard of living

To answer these questions, every country must develop a system or set of social arrangements, customs, laws, and practices. These arrangements become the country's *economic system*. An economic system is not something that can be seen, touched or pointed to. What it does is organize and guide the way in which economic decisions are made.

No two countries will organize their economic life in exactly the same way. In one society, the economic decisions may be made mainly by the customs and traditions of a tribe or village. In another, government may make most of these decisions. Some countries make most of their economic decisions through the choices of individual buyers and sellers. Countries also make changes in their economic systems from time to time.

HUMAN WANTS

- 1. Unlimited
- 2. Can be satisfied in different ways

PROBLEM OF SCARCITY

CHOICES MUST BE MADE

creates the need for an **ECONOMIC SYSTEM**

which must decide

RESOURCES

- 1. Scarce relative to human wants
- 2. Can be used in different ways

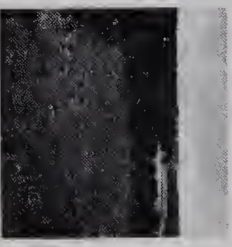
what and how much to produce

how to combine and use resources in production

how to maintain and expand the standard of living

who will get what and how much

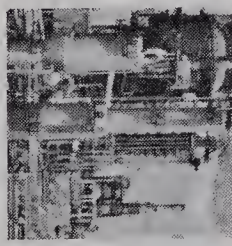
in order to make best use of



natural resources



human resources



capital

Many things affect the kind of economic system a country has—its stage of development, the amount and quality of its resources, its storehouse of technical knowledge, its relations with other countries. Even more important, every society, like every person, has certain goals. Some are economic, some are not. A society's economic system is closely related to its people's whole way of life. One goal for Americans, for example, has been to provide as much political and economic freedom as possible, and still achieve other goals. We want our economic system to (1) provide jobs for all those who want to work; (2) use resources with as little waste as possible, so as to produce more of the things we want; (3) protect our citizens against economic loss due to sickness, accidents, and old age; and (4) provide opportunities and rewards that are fair and just.

In most of these efforts, we have not been as successful as we would like to be. In fact, some of our most important economic problems come from our efforts to achieve these goals. Still, these goals are important in determining how economic life is organized in the United States. As we put more importance on any one of them, or as we adopt new goals, changes are made in our economic system.

It is the same in other countries. Each one has its goals and values. Each country uses its economic system to achieve them. Some nations may have goals that are similar to ours, but use different ways to attain them. Others may have different goals, yet use methods similar to ours in trying to reach them. Each economic system has its virtues and its faults, and reflects the social, political, and religious beliefs of the country. We must remember that no one system is necessarily the best one for every country in every possible situation. To really understand the way different countries make economic decisions and try to solve their economic problems, we must examine the resources they have and the history and culture of their people.

—*Lewis E. Wagner*

*Director, Bureau of Business and Economic Research,
State University of Iowa*

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*A large area of ruins where imposing buildings once stood—
Tokyo, 1945*



INTRODUCTION

The fighting in World War II officially ended on board the USS *Missouri* on September 2, 1945. On the quarterdeck of this battleship, representatives of Japan and of nine Allied nations signed the document. General Douglas MacArthur, Supreme Commander for the Allied Powers, took control of Japan.

After nearly a century of trying to make its way in the world, Japan was back where it started—bowing to the will of foreigners. The *Missouri* and a fleet of other warships lay at anchor in Tokyo Bay not far from where Commodore Perry had anchored his much smaller squadron 91 years earlier. And once again a foreign military power, coming to Japan in ships of the United States Navy, was telling Japan, “No, you can’t do it that way.”

So Japan’s question once again was, “Then how can we do it? How can a nation of vigorous and ambitious people, who live in rugged, narrow islands, make its way in the world? What can we do to earn a living?”

No answer was clear to anyone who stood there on the quarterdeck that sunny September day. Most of them were not even thinking of the question. The war had been long, brutal, and bloody. The unhappy Japanese who attended the ceremony probably felt only shame and humiliation. The Americans and other Allies felt pride in victory and relief that the war was over. Those who, with General MacArthur, had to stay in Japan as occupying forces may have worried about their new responsibilities. But these men were not thinking about Japan’s economy. That was a problem for the Japanese. What the occupation

forces wanted most at first was to disarm and demobilize Japan.

For the Japanese population in the weeks and months that followed, the question was mainly how to get enough to eat, and how to keep warm.

But hunger was only one of many economic problems in defeated Japan. Many people had no houses, for the bombings had caused terrible fires in the tinderbox Japanese cities. Acres and acres in the center of Tokyo were flat and bare, except for an occasional steel safe that had survived the flames. The wood-and-paper Japanese houses were gone. So were furniture, clothing, records and money. It was nearly impossible to travel or to reach people—the telephone and mail systems could barely operate. People could not find their families. Where stores were still standing, or stalls set up along burned-out streets, the few things for sale were very expensive. Jobs were scarce. Prices rose, week by week. Men could not find where they had worked. Soldiers returning home in defeat had trouble finding their families.

Now, almost twenty years later, Japan has recovered from the war disaster. Things are now better than ever before. In the past century, Japan has come from a backward, feudal country, through a war that almost destroyed her, to become, as she had been before World War II, the most advanced and prosperous country in Asia.

If you look in today's newspaper, you may find a news story about unrest in Japanese politics or about a new Japanese trade agreement. If you enter nearly any store you will see goods labeled "made in Japan." Perhaps you own a Japanese camera or typewriter, a transistor radio or a tiny portable TV set. Your family may eat tuna fish canned in Japan. Does your mother own a silk dress, or does your father have some silk neckties? Chances are that the silk came from Japan—and maybe the cloth was made on Japanese machines.

You or someone you know may even have traveled to this small but important country. Maybe your father or your brother was there during the post-war occupation, during the war in Korea, or while doing military service more recently.



A thriving modern city—Tokyo, 1963

—Japan Tourist Association

All these things may make it hard to realize that less than 125 years ago, Japan was cut off from the rest of the world. No “foreign barbarians” could enter the tightly-closed door of this tiny country. No Japanese ships could cross the ocean to trade with Europe or America. Such trading was, in fact, against Japanese law. The sole exceptions were occasional Dutch and Chinese ships that were allowed to put in at Nagasaki, in the westernmost part of Japan.

Yet, somehow, by 1960—only a little more than 100 years after the door to Japan was opened—this island nation had become the second largest exporter of goods to the United States. Only our neighbor Canada exported more goods to the U.S., and none of the countries of Western Europe approached the volume of Japanese trade. Japan is also the second largest foreign buyer of American export goods, again following Canada. For American agricultural exports, Japan is the largest market of all. How did this happen in so short a time?

Why is Japan unique in its industrial development? How has it overcome the handicaps that the developing nations of today have? What does the tremendous volume of low-priced Japanese products mean to the American economy? And do American private investments in Japanese industry cause harm to American manufacturers? How strong and how dangerous are the internal pressures of socialism and communism in Japan? How could they affect the current harmony between the United States and Japan? How can a country like Japan withstand the pressures of its huge Communist neighbors?

All these questions and facts and ideas are a part of the story of Japan’s economy—its growth and development and its problems. When you have finished the booklet, you may want to return to these questions, to see how your knowledge of Japan has grown to answer your questions about this important part of today’s world.



ECONOMIC BACKGROUND OF JAPAN

In 1854, a few years after the California Gold Rush, an American naval squadron dropped anchor in Tokyo Bay. In command was Commodore Matthew Galbraith Perry, U.S.N. His instructions were to open Japan to foreign trade.

To persuade the Japanese, Commodore Perry's ten ships carried a telegraph and a miniature railway, complete with rails, locomotive, tender, and cars. Perry's engineers set up the railroad on shore and took the delighted Japanese for rides, like children in an American amusement park.

To strengthen his bargaining power, Commodore Perry's ships also carried guns bigger and more powerful than any in Japan. These guns, and the Commodore's firmness, did the trick, and for the first time in over two centuries, Japan agreed to open some ports to world trade.

In those days Japan was a feudal country, as it had been for centuries. The Emperor lived quietly in the city of Kyoto in central Honshu, the largest of Japan's four main islands. He did not rule the country. The actual ruler was called the *shogun*—"barbarian-quelling generalissimo." He lived in Edo, which is now called Tokyo. The military dictator was more interested in controlling the country than in making it wealthy or its people comfortable. The position of *shogun* had been a hereditary privilege of the Tokugawa clan since 1602, when this clan had defeated its rivals. Under the *shogun* there were about 250 feudal lords, called *daimyo*, each of whom ruled a part of the country called a *han*. The largest *han*, the ones nearest to Edo, belonged to members of the Tokugawa clan and their friends.

The *han* farthest from Edo belonged to clans that had fought against the Tokugawa before 1602.

Within each *han* the *daimyo* was supreme. His word was law, and he was lord of the land. To defend and administer the *han* the *daimyo* had warrior-knights, called *samurai*. *Samurai* were privileged members of the upper classes, showing their rank by their clothing and the two swords they wore. Common people had to obey members of the upper classes. If a commoner's conduct was improper, a *samurai* had the right to behead him with the *samurai* sword.

Among commoners the highest class were the farmers, who made up about three-quarters of the 30-million total population. Most farmers had their own land, although technically the *daimyo* owned all land in his *han*. About a quarter of the farmland was cultivated by tenants, or farmers who worked land that belonged to others.

Below the farmer in the social scale came the artisan (or craftsman), and below him the merchant. No one was lower, except a few outcasts. Still, the merchants were important in many ways. They bought, stored, transported, and sold rice in the cities and wherever people did not grow enough of their own. The merchants also were moneylenders, and many *samurai* and *daimyo* owed them large debts. Some merchants made big profits and grew rich. Some even bought titles from *samurai*, although that was strictly forbidden, for no one was allowed to change his class.

To keep the *daimyo* (the feudal lords) under control, the *shogun* ordered each of them to spend half his time in Edo. Even when a lord went back to his *han*, his family had to stay in Edo as hostages. To maintain his status a *daimyo* had to keep an elaborate household in Edo, with many *samurai* and servants. In addition, the *shogun* required them to contribute from time to time for roads, defenses, or memorials. The *shogun* wanted to be sure that the *daimyo*, especially the "Outer Daimyo" whose ancestors had fought against the Tokugawa clan, would never get rich enough or strong enough to start an uprising.

This oppressive and cruel system of control kept most Japanese poor. Some of the *daimyo* could not even pay their *samurai* more than half the customary amount of rice revenues. Since the *samurai* were not supposed to work with their hands or pay attention to such lowly matters as money, many went hungry and let their homes grow shabby.

The *shogun's* system of "alternate attendance" in Edo kept about half the *daimyo* of the country in the city at any given time. To keep up their positions, these lords performed many elaborate ceremonies and held celebrations of many kinds. So a vast flow of food and other supplies had to come to the city on small boats from along the coast. People also were continually coming and going, so that it was necessary to build some roads. The most important and famous road of all was the *Tokaido*, which ran along the coast from Edo to Osaka, in central Japan.

THE MEIJI RESTORATION, 1868

From 1638, the *shogun* prohibited foreign trade, in fact any foreign contacts, except for a few restricted Dutch and Chinese visits to western Japan. When Commodore Perry forced Japan, against the *shogun's* will, to permit trade, the *shogun's* enemies saw how weak the feudal government was.

Vigorous *samurai* from four clans in western Japan seized their opportunity and in 1867 succeeded in overthrowing the new young *shogun*. They then brought the Emperor out of his seclusion in Kyoto and installed him in the former *shogun's* palace in Edo. It became the Imperial Palace, and remains that today. Edo was renamed Tokyo ("Eastern Capital").

The Emperor at the time was Mutsuhito, a youth of 15 who had just come to the throne. So, when his reign formally began, with an impressive ceremony in April 1868, the occasion was celebrated not just as the start of another reign, but as an historic restoration of Imperial powers and the start of a new era. As was customary, the new Emperor proclaimed his reign, and gave it a name. It was Meiji ("enlightened rule"). He

turned out to be a truly enlightened monarch, but the main power of the government was in the hands of the leaders of those four Western clans, who had overthrown the shogun.

The Meiji government was an oligarchy; that is, one in which a few men held the power. These few men knew what they wanted. They set the nation on a path that for the next fifty years led in the direction they indicated.

Economic Growth

During The Meiji Era (1868-1912)

The Meiji oligarchy adopted the slogan, "Enrich the nation and strengthen its arms." This meant that the nation would gain military power through economic development. Emperor Meiji in his Charter Oath of April 1868 explained how: "Knowledge shall be sought throughout the world so as to strengthen the foundations of imperial rule."

These quotations show that the Meiji leaders wanted a strong nation, not individual welfare or comfort for the people. The reason they gave for wanting this strength was to prevent any future Commodore Perry from dictating to Japan. However, before long it became clear that their motive was not defensive but aggressive. "Make our country strong by military preparations," said Viscount Tani in 1877, "...we must become the chief of the Orient."

The government led development in many ways. It set up systems for taxation, education and banking, and established a post office and a merchant marine. It developed some factories but soon sold most of them to favored families. Of course it established a strong army and a navy. A test came in 1895 when the Japanese attacked China and won a short war. One of the prizes from that victory was Taiwan (Formosa), a Chinese island which Japan took as a colony.

In 1905 Japanese forces attacked Russia. Again Japan was victorious. An indirect prize of that victory was Korea, which Japan took as a colony in 1910.

As Emperor Meiji had instructed, the new government sent

able young men abroad to learn Western science, technology, and know-how. Government agencies employed foreign advisers. Schools and colleges brought in foreign teachers; whenever a new foreign machine arrived, it was studied carefully. The Meiji leaders learned fast and well. They selected particular things from Europe and America, then adapted them to Japanese needs. There was no foreign aid in those days, no World Bank. What Japan got, it got on its own initiative. Its mistakes were its own, too—Japan paid for these mistakes, but they were remarkably few.

Japanese farmers played a large role in Japanese development. In fact, agriculture provided the foundation of the great Meiji successes, just as agriculture had always been the support of the feudal society.

First of all, the farmers improved their methods of cultivation. They applied more fertilizer, raising yields of rice and other crops faster than the population grew. Second, it was the custom for the farmer to hand his farm intact to his oldest son (or one adopted for the purpose) rather than dividing the land among several sons. This tradition, called primogeniture, kept the farm population about the same throughout the Meiji era and even afterward. The younger sons left the farms for the cities, which grew rapidly. Only in times of trouble did these city people come back to live in the villages with their country brothers, parents, or cousins.

Third, and perhaps most important of all, the farms provided the capital for economic growth. Much of this capital was squeezed from the farmer by taxation, which provided most of the receipts of the Meiji government. Farmers were producing more than before, but because most of the increase went in taxes, the farmers' standard of living did not rise much.

The *daimyo* gave up their lands and their rice revenues in return for government bonds. After that the farmers had to pay taxes to the government, instead of feudal rice revenues to *daimyo*. Most of the *daimyo* and *samurai* no longer got enough to live on, and so many of them took jobs in the government,

including the army and navy. Some even went into business.

At first foreign trade created problems for Japan. Foreign cotton cloth and yarn were so cheap compared to what could be produced in Japan that in time Japanese farmers stopped growing cotton. Home spinners went out of business as foreign yarns captured the market. Other major imports were munitions to support the growing army and navy, and machinery, to help establish factories.

To pay for these imports Japan had very little to offer. At first, it had only small quantities of gold, copper, tea, and fish products. But soon after the Meiji Restoration a silkworm disease in Europe gave Japan an opportunity to sell large quantities of silk to foreign buyers. For a long time silk was the country's largest export product. Many farmers raised silkworms. Special factories, called filatures, took the cocoons and unwound the delicate silk into skeins for export.

Cotton textiles were another modern industry that grew by private enterprise. Although the government set up a number of small spinning plants, these all lost money. Not until 1883, when a large steam-powered private mill started operations in Osaka, did the industry begin to produce much yarn or to earn profits. Weaving plants introduced modern machinery later, and here also it was private enterprise that did the job.

Other industries, railroads, telegraph lines, shipyards and many other modern facilities appeared one by one during the Meiji era. Sometimes the government put up the money. Once in a while foreigners provided the capital, notably for the first railway, which ran the few miles from Tokyo to Yokohama, a major port. But mainly it was the private capital and private enterprise of the Japanese that built industry and made the economy run. Usually a businessman had to start on a small scale, since he had only a small amount of money. But as he made profits, he would expand by reinvesting them. Through the years many firms reached large size; a few grew huge.

The government helped by setting the rules, building some facilities, and providing technical help. Perhaps the biggest con-

tribution the government made was to buy the output of many factories, especially for military purposes. The biggest government orders went to the few biggest companies, called *zaibatsu*. These firms, such as Mitsui, Mitsubishi, and Sumitomo, were helped at first by being allowed to buy, at very low prices, factories paid for or built by the government.

When Emperor Meiji died in 1912, Japan had succeeded beyond all expectations in doing just what the oligarchy had set out to do. It had built a modern economy and a modern army and navy. Japanese military power had overcome China and Russia. Along the way Japan had taken Taiwan and Korea as colonies. Great Britain was so impressed with Japan that it formed an alliance. Despite all of this, the Japanese people, especially the farmers, had not changed their traditional ways very much. They continued to work very hard, learn new skills, save money, and demand very little, either in money or in political privileges and power.

World War I pushed up the rising curve of the Japanese economy even higher. The warring European countries could not export to Japan and other Far Eastern markets as much as before. So Japanese machinery makers and other businesses began to make and sell products that had once been imported. Japanese exporters got rich selling at high prices to buyers in China and Southeast Asia who had been buying from Europe. Some American war workers, making higher wages than ever before, spent their money for Japanese goods, such as shirts made from Japanese silk.

THE JAPANESE ECONOMY BETWEEN WORLD WARS

The war boom broke in 1920, when foreign sales collapsed. Many Japanese firms went bankrupt, prices fell, and many workers lost their jobs. For the first time in over fifty years Japan suffered a setback. It did not last long, but the magic of the Meiji Era and of the war boom that followed was gone. The Meiji

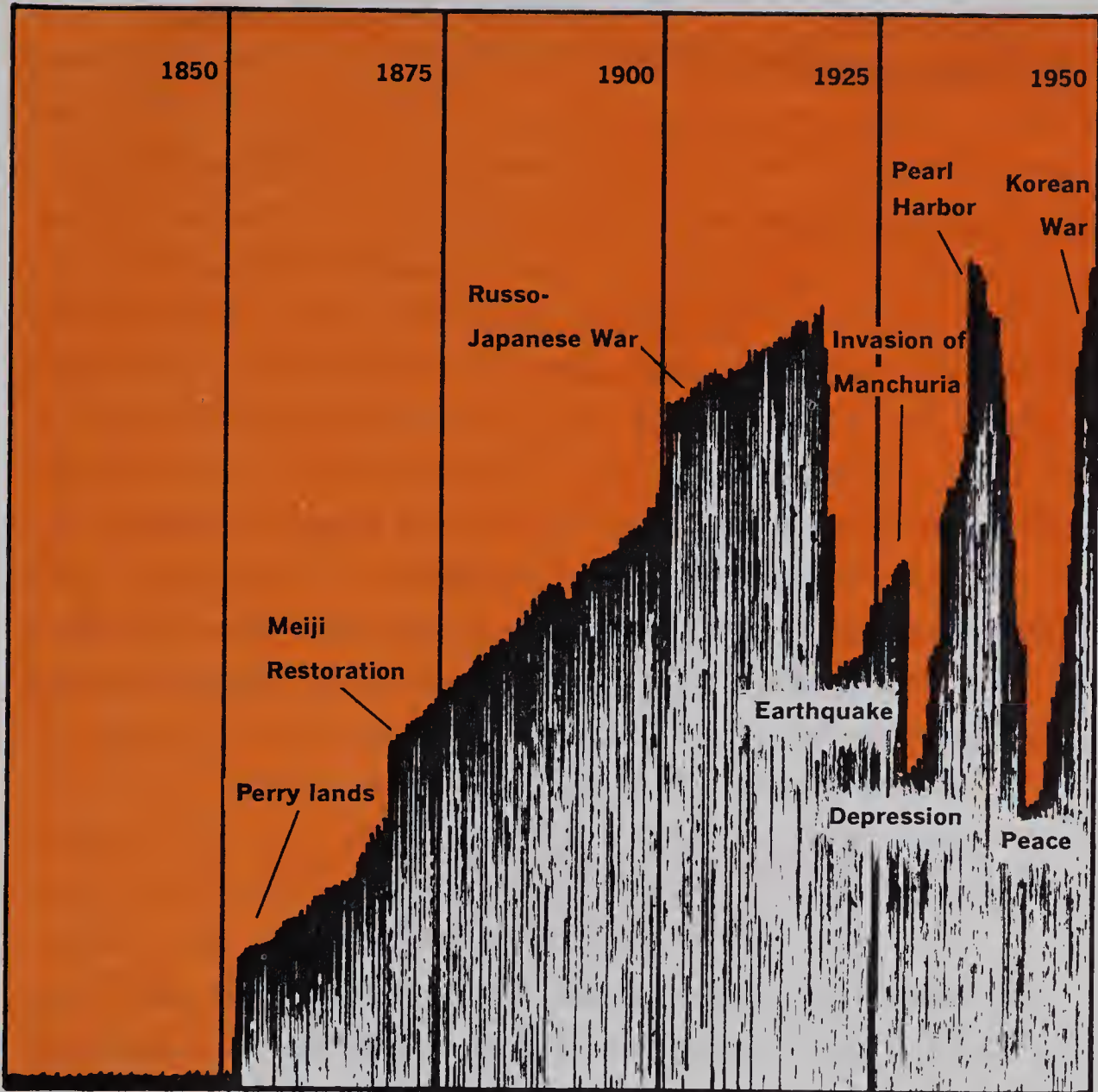
leaders were old or had disappeared from the scene. The younger generation did not see things the same way. Young civilians wanted some of the comforts of modern life. People in Japan began to demand more of a voice in their government and some of the comforts and pleasures of Western countries. Meanwhile young Japanese soldiers, who had done little fighting and who yearned for victories, became more and more unruly.

Economic troubles disturbed this tense situation several times. The earthquake of 1923 was the first blow. It struck at noon on September 1, 1923, when many housewives had fires burning in their *hibachi* to prepare lunch. The earthquake occurred in the country's most densely populated area, including both Tokyo and Yokohama. The violence of the tremors flattened modern buildings to rubble. Paved roads and streets were twisted out of shape, with gashes opening up in the earth. Immediately the debris of thousands of wood-and-paper houses began to burn, and the holocaust that followed was one of the worst in human history. One hundred thousand people died and many more were injured. The whole region lay devastated. Before the earthquake these cities had been thriving centers of Japanese life—Tokyo as the capital and business center, Yokohama as one of the nation's leading ports. Afterward, months passed before anything like normal business could go on, even in emergency quarters.

The country recovered, but in 1927 another disaster of a very different kind struck. Three dozen banks ran into difficulty and closed their doors, causing a widespread financial crisis. Then, in less than three years, when the government was enforcing a new set of stringent financial policies, the world wide depression hit Japan. Many workers lost their jobs and had to go back to the country to live with their farmer-relatives. But many of the farmers had suffered a great deal as well. Silk prices dropped sharply, and poor farmers who relied on the raising of silkworms for much of their income were made that much poorer.

This unprosperous and unhappy situation grew worse dur-

Timeline Chart



ing 1930 and 1931, as world depression set in after the 1929 stock market crash in New York. In September 1931, the Japanese Kwantung Army, without permission from the cabinet, or without even informing them beforehand, left its positions along the South Manchuria Railway and invaded all of Manchuria. This independent action by Japanese soldiers was the result, in part, of a peculiar law that made the Army and Navy less responsible to the Cabinet and Prime Minister than is customary in Western countries. Once the troops had moved, no one in Japan could stop them. In this way, Japan started down the path of aggression that was to lead to full-scale war against China in 1937 and to the attack on Pearl Harbor in 1941.

Beginning in 1931 the economy of Japan became more and more a war economy. At first this new path was easy and pleasant. Military victory came fast in Manchuria. The depression in Japan gave way quickly to recovery, then in 1937 a war boom. When war broke out in Europe in 1939, Japan's military chiefs were anxious to take advantage of the Western nations' preoccupations by capturing their Asian colonies. They especially wanted the Philippines from the United States, Indonesia from the Dutch, Indochina from the French. From the British they wished to take Hong Kong, Singapore, Malaya, Burma and possibly even huge India and Australia. But the situation in China, where the army was bogged down in the vast expanses of North and Central China, was causing great difficulty for Japan. Also, the United States had powerful naval forces in the Pacific Ocean, so the Japanese leaders hesitated for a time.

GREATER EAST ASIA AND THE PACIFIC WAR

Dreams of glory and power seem to have been the main force behind the Japanese craving for conquest. The Japanese war lords indoctrinated the drafted soldiers and their officers with the idea that Japan was destined to rule the "eight corners of the earth." They also put forth a kind of economic justification. It stated that the vigorous Japanese population was too large to be able to live well within their own islands. One possible solution would be for a good many Japanese to move abroad (emigrate), but that was prevented—so the argument went—by immigration barriers in the countries where Japanese wanted to live. Or, Japan might export its products and thus earn enough to buy necessary imports. But—said Japanese expansionists—the United States and other rich countries would not permit such sales. Trade barriers prevented the home territories and Asian colonies from buying enough from Japan to make it possible for Japan to earn a living through exports.

The third solution, according to Japanese propaganda, was for Japan to seize control of enough territory to provide necessary raw materials, export markets, and room for emigration. This was the course Japan tried.

Although each of these arguments had some justification, not one of them was valid. In the case of emigration, it was true during the 1930's that the United States, Australia, and several other countries did not permit immigration by Japanese, although some Japanese had been allowed to come to the U.S. before 1924. But Japanese simply did not go abroad to live in large numbers, even when they had the chance.

As for trade, it is true that trade barriers were a serious block to Japanese economic progress during the 1930's. The United States and many other countries raised tariffs against Japanese goods, and even imposed some quotas. Still, Japanese exports were doing well in markets almost everywhere, despite the world depression and the import restrictions. It had not been proved that Japan could not export enough for peaceful economic growth. Japanese aggression only made foreign attitudes worse toward Japan and Japanese goods.

The third "solution" did not work either. This is what the Japanese tried. The policy officially was to establish a "Greater East Asia Co-Prosperity Sphere" with Japan as the economic heart.

The war plan had three phases:

1. Capture the area of Greater East Asia.
2. Defend this vast region from enemy attack.
3. Exploit the resources of the captured areas for the benefit of Japan.

As things worked out, phase 1 succeeded extremely well. Japanese forces gained control over the huge area extending from the outer Aleutian Islands to Burma and New Guinea. The plan left for some future date arrangements for the "independence" of Australia and India. But that is about as far as Japanese success went. Some of the conquered areas yielded raw materials for a while, but Japan was unable to defend any

of the areas against the might of American counter attack.

Blockade and economic strangulation were key factors in Japan's defeat. Submarines, aircraft, and mines sank Japanese ships far faster than Japanese shipyards could build new ones. At the time of surrender Japan had only 700,000 gross tons of ocean-going ships able to operate, compared with 6,000,000 at the time of the attack on Pearl Harbor. After about a year and a half of war there was not much contact with Southeast Asia. Japan's war machine, and even more its civilian economy, ran short of oil, ores, cotton, wool, and food.

The very weakness that the Japanese had complained about—dependence on imports—contributed greatly to their defeat. But even if blockade had not weakened Japan, other measures would have done so, and many more lives would have been lost in the process. The atomic bombs that destroyed much of Hiroshima and Nagasaki gave Emperor Hirohito a good reason to intervene and command his people and their leaders to accept surrender.

THE OCCUPATION BEGINS

General MacArthur and his officers and men had found the Japanese powerful fighters in the Pacific Islands and felt respect for Japan's ability to organize and mobilize for war. But when the Americans reached Japan, they were appalled at the destruction, the disorganization, and the economic weakness they found. Most of Japan's cities had been destroyed, and millions of city people were living with relatives in the country. Other city people would sometimes travel to the country wearing extra clothes, which they could trade to farmers for rice. This practice was forbidden by rationing regulations, but in the confusion of defeat, many regulations broke down.

The hunger and suffering of the Japanese people looked like a possible source of danger to the Occupation. Would miserable people perhaps try to mob and rob the well-clothed, well-fed, comfortable Americans in the Occupation forces? How

efficiently would they carry out Occupation orders? General MacArthur soon felt the need for help. He asked President Truman to send either grain or more troops. In reply, although American food reserves were running low after huge shipments to Allied and liberated peoples, President Truman did send grain, and in time many other things too. In the next six years American aid to Japan totaled over \$2 billion.

As things turned out, it was easy for the Occupation forces to get control, keep the peace, and disarm and demobilize the Japanese army and navy. The Emperor had ordered his people to surrender and to obey General MacArthur, the “white *shogun*.” They obeyed, soldiers and civilians alike. Seldom in the long history of military conquest has an occupying army received such complete and peaceful obedience from a defeated people. Americans were safe in Japan, even at night in dark, narrow streets.

The first winter was very hard, but the Japanese people showed amazing powers of recovery. They went to work and did what they could. They built shacks from scraps of wood or metal found in the ashes or around the countryside. They started up businesses, even if only in street stalls. Men found rickshaws somewhere and earned a few *yen* pulling people around the streets. Since there were few automobiles left, and the streetcars and buses were few, slow and overcrowded, and the railroads were extremely overcrowded—except for the cars reserved for Occupation personnel—there was a real need for the old-fashioned rickshaw.

An extremely poor harvest in 1945 made that first postwar winter even worse. With the men off fighting, or working in such war plants as could keep operating, women had been doing more and more farming during the war. Some farms just did not have enough labor. Fertilizer, which was important, had become scarcer as factories had shifted to war production. And the weather in 1945 was unusually bad. But the farms operated and produced enough rice and other crops to keep the nation alive. Everyone was hungry, but very few actually starved.

Industry and mining fared even worse than agriculture. Most mining had been done by Koreans or Chinese, and they quit work when they heard Japan had been defeated. Consequently, coal was very scarce. It was hard to run trains or powerhouses or factories. Those factories that were still standing had trouble getting raw materials—especially cotton, wool, aluminum, rubber, oil, and other imports. War factories stopped production under Occupation orders. Even when raw materials and fuel were available, machinery was old and worn, spare parts often missing, and electric power scarce. The work force was disorganized by deaths, separation of families, hunger, and other troubles. To make sure that Japan would really change from militarism, the Occupation prohibited many business executives from keeping their former jobs. In 1946 the output of mines and factories was only one-fifth of what it had been during the war.

POSTWAR JAPAN

American aid did not answer the question of how Japan was to earn a living. It did help keep people alive while the Japanese tried to answer certain questions: Where would Japan get imports of cotton, wool, oil and all the other things needed to begin producing again? Where would it obtain new machinery to replace that which had been destroyed by bombing or fire, or melted down for scrap, or worn out from overuse? How could Japan now pay for such imports? Could Japan produce anything worth exporting? And, if so, who would buy? The Koreans, Chinese, and others whom Japanese soldiers had treated so brutally? The U.S.S.R., which had attacked Japan at the end of the war despite a non-aggression treaty? The United States, which had led the fighting against Japan and was now leading the Occupation?

In some ways Japan's problem grew worse in the first year after 1945. Occupation rules prohibited contacts between Japanese and foreigners. Civil war in China reduced trading

possibilities. The communist victory there in 1949 brought to power in Peking a regime full of hatred for Japan. Korea was divided and disorganized. Southeast Asian countries began to have troubles, and trade prospects looked very gloomy indeed, even though these countries, one by one, gained independence from colonial rule. In addition Japan owed reparations for Japanese destruction in other Asian countries.

The Occupation had come into being, not for Japanese recovery, but “to insure that Japan will not again become a menace to the United States or to the peace and security of the world.” Then, as time went on, economic recovery seemed more and more important, “to foster conditions which will give the greatest possible assurance that Japan will not again become a menace to the peace and security of the world and will permit her eventual admission as a responsible and peaceful member of the family of nations.”

Networks of interconnected firms, the *zaibatsu*, did many kinds of business and wielded great influence in Japanese business. American policymakers thought that these huge organizations and their concentrated political and economic power had been partly responsible for Japan’s aggressive policies. Groups of companies were split apart in hopes of increasing competition and reducing the amount of power that one family or one company could wield.

Before this reform was finished, the Occupation policy changed in accordance with new directives from Washington. Since the end of the Occupation, the *zaibatsu* have put together again many of the pieces that the Occupation had separated. Once again the names Mitsui, Mitsubishi, and Sumitomo mean huge business combines. Their influence on policy has probably declined, however, for today many new companies also have economic power and political influence.

The Occupation imposed a land reform that has proved to be more important and more lasting. The privations and troubles of Japanese farmers had forced many to lose their land and become tenants. Landowners had sometimes grown rich and

powerful from the work of their tenants. The 1946 land reform law set a limit on the amount of land one person could own. The government bought all farmland above this limit. Then it sold the land, mainly to the tenants who were already cultivating it. The price was so low that many tenants were able to pay in full in a few years. Now over 90 per cent of the Japanese farmers own the land they work. They have stronger incentives to increase their output, because they can keep nearly all the extra production. The farmer no longer needs to bow to a landlord, as in Tokugawa times he bowed to *samurai* and noblemen. The Japanese farmer is now a self-respecting citizen in a democratic country.

In prewar Japan, labor unions were few and weak. The militarist rulers did not think that workers should join together and bargain collectively about wages or working conditions. The Occupation permitted the formation of unions; these unions have recently joined together in several federations. Japanese workers now receive far better wages and treatment from employers. Unions were partly responsible, as were prosperity and government regulations.

Many Japanese union leaders are Socialists and have persuaded most union members to vote Socialist in elections. As a result, many Socialists have been elected to the Diet, or congress. There are also a number of Communists in Japan, who have considerable influence in some unions. Not many Communists, however, have been elected to the Diet.

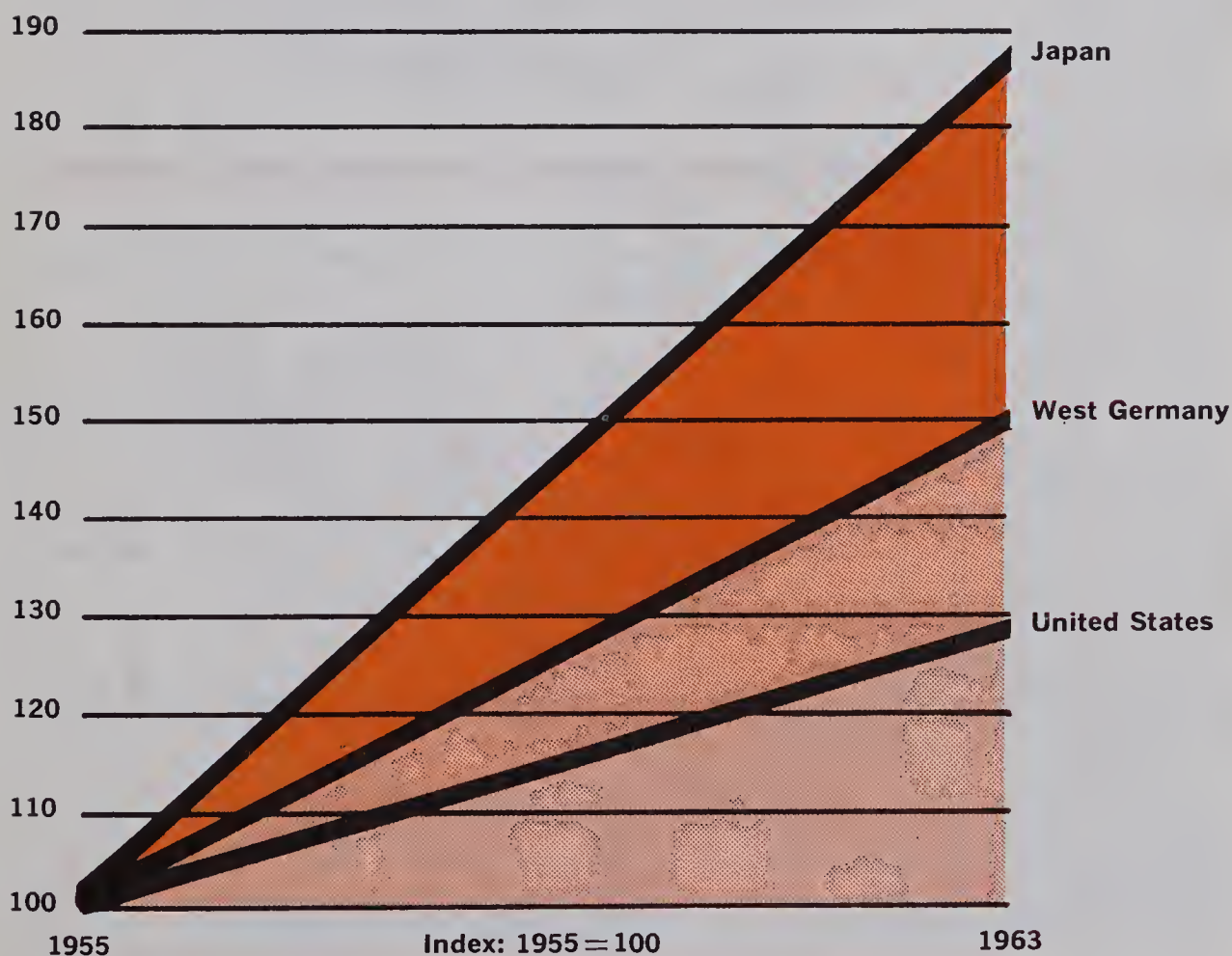
While the Occupation was putting its reforms into effect, the economy was recovering slowly. Some contacts were allowed with foreigners, mainly for the purpose of increasing Japanese exports. In 1949 special measures stopped the raging inflation, and the Japanese economy began to show signs of healthy growth, even though production was still below former levels.

Japan was ready, therefore, to help economically when North Korean troops marched into South Korea in June 1950. Japan did not take part in the fighting, but American forces and small forces from other United Nations countries used

Japanese bases. The Occupation army turned its attention from Japan and became a fighting army in Korea.

The UN forces, mostly Americans, spent huge amounts of money in Japan. They bought artillery shells, jeeps and many other military articles. When on leave in Japan they spent their pay seeing the sights and buying Japanese products to send home. They brought their families, who also bought many things and hired Japanese help. This spending brought dollars to Japan, just as exports did. American aid had nearly stopped by 1951, but large military expenditures began in the same year. These have continued ever since the end of the Korean War, although in declining amounts. In 1958 all American ground combat troops left Japan. Other American military personnel in Japan still spend a good deal, but now Japan has large exports, and the military dollars are not needed so badly as in the early 1950's.

Economic Growth 1955-1963

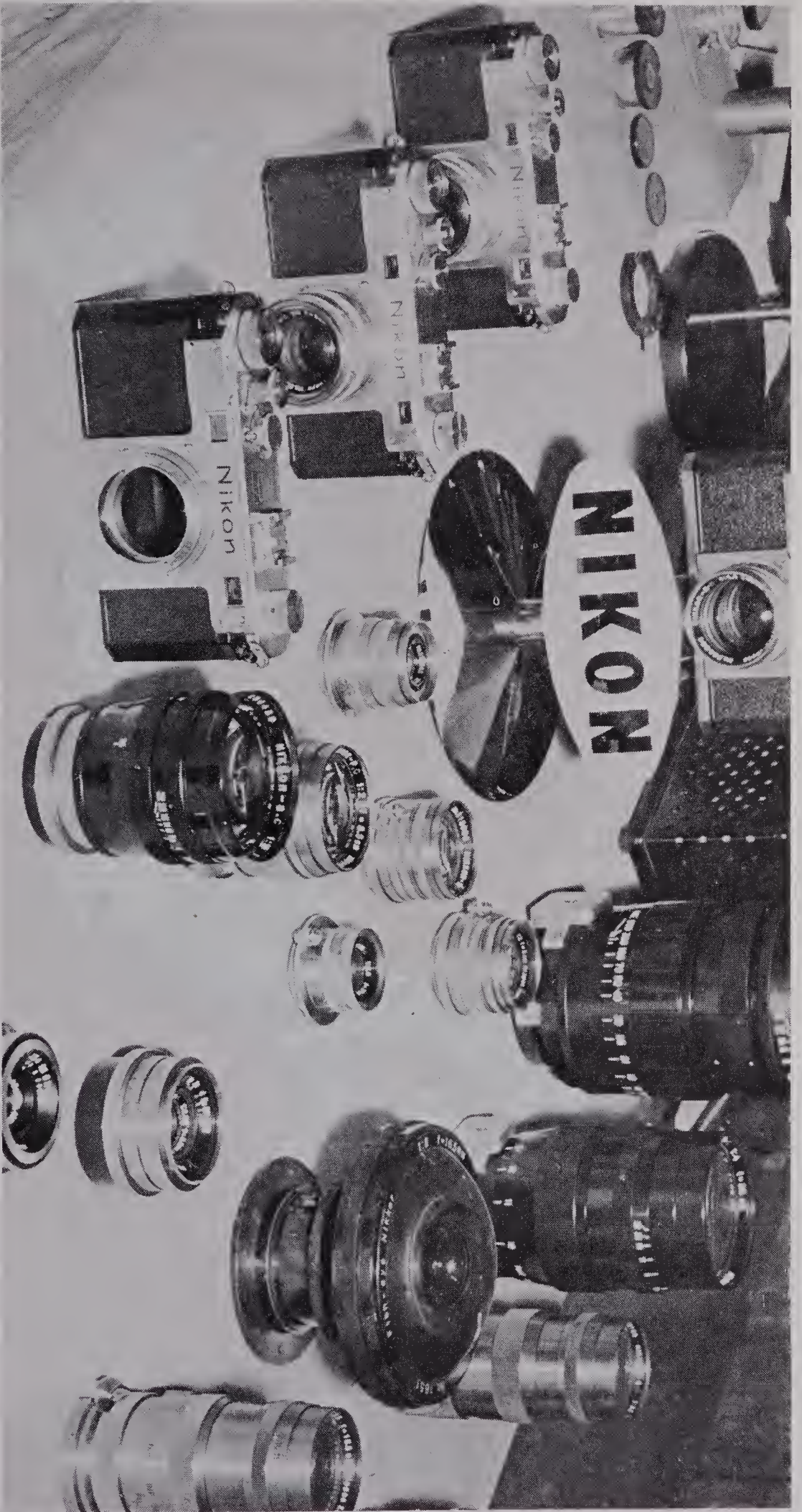


The Korean war also brought Japan some large export opportunities. The Occupation ended quietly in April 1952, when the San Francisco Treaty, ending the Pacific War, went into effect. The Japanese were again free to trade in the same way as other nations. Exports rose rapidly, stayed level a while, and then rose again. Japan was finally recovering from the war disaster. Since the early 1950's Japan's economy has grown extremely fast. In fact, it has grown faster than any other economy in the world.

This growth is still going on. It depends on imports and exports, on foreign machines and patents to make Japanese factories efficient and their products modern. Growth also depends on hard work, on saving and investment, and on skillful management of the Japanese economy by officials and businessmen.

In a little over a century since Commodore Perry's visit, Japan has had extreme economic ups and downs. Things are now better than ever before. Japan is at last finding an answer to the question of how to earn an honest living. In the following sections we shall look more closely at its problems and possible answers from several points of view.

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1. Under Japanese feudalism, what was life like for the farmer, the craftsman and the merchant?
 2. List some important steps taken in Japan to convert the feudal system into a modern economy.
 3. In the 1930's Japan's economy became a "war" economy. Why? How was this justified to the people?
 4. What steps were taken to bring prosperity to postwar Japan?



Among Japan's important exports are cameras and photographic equipment

—Japanese Foreign Ministry

Relief Map





PRESENT STATUS OF THE JAPANESE ECONOMY

Japan is the most advanced country in Asia. Its factories can make the newest transistor radios and the smallest portable television sets. Recently, Japan built the largest ship in the world; the world's fastest railroad is under construction. When this new line is completed in 1965, one will be able to travel from downtown Tokyo to downtown Osaka, 310 miles away, in exactly three hours.

ANALYSIS OF RESOURCES

Japan is made up of one large island, Honshu, and three smaller islands, Hokkaido, to the north, and Kyushu and Shikoku to the west and south. There are also many small islands nearby.

The Japanese islands are mountainous and mostly covered with forests. The beautiful green of the Japanese mountains is very different from the brown mountains of Korea, where most of the trees were cut down generations ago. Japan's forests produce much excellent timber as well as the firewood and charcoal still used for cooking by many Japanese.

About one-sixth of the area of Japan is farmland. These farms are not like those in America, for very little of Japan is flat. Much of the cropland consists of terraces of level land on the mountain sides. Rice—the main food and principal crop—is grown in irrigated paddy fields kept under several inches of water during part of the year. Keeping mountainside fields under water takes not only ample rainfall but also intricate dikes and channels. These hold water in the fields when it is needed.



A terraced Japanese farm

—Japanese Foreign Ministry

They lead it from a high field to the next lower field and so on down the mountainside, and keep the water from washing away the soil or the retaining walls.

Japan's rainfall is usually adequate both for farming and for generating large amounts of hydroelectric power. Japan does not have the huge reservoir lakes above hydroelectric dams that we find in the United States. Electricity is generated as the water falls from high mountains. Most rivers are fairly short and steep, with no long river systems like the Mississippi, the Columbia, or the Colorado.

Nature is harsh and destructive as well as beautiful. Earthquakes do some damage every year and sometimes cause terrible disasters. Typhoons—violent storms from the ocean—also cause great damage. Floods occur fairly often, and sometimes are very destructive. Because of the earthquakes, Japanese do not build many houses of stone, but use wood instead. The light wooden houses do not crush people as stone houses might. But wooden houses catch fire easily, and serious fires often occur in Japanese cities.

Since the days of the Tokugawa Shogunate, about 100 years ago, the population has grown from about 30 million to 96 million in 1963. Of these, 47 million are workers. About one-quarter of the workers are farmers living in villages. There are not quite as many workers in factories as on farms. Most of the rest work in stores or banks, government offices or public utilities, and service occupations such as teaching, repairing cars or entertainment. The construction industry uses some workers, fishing and mining relatively few.

PRESENT ECONOMIC STRUCTURE AND ORGANIZATION

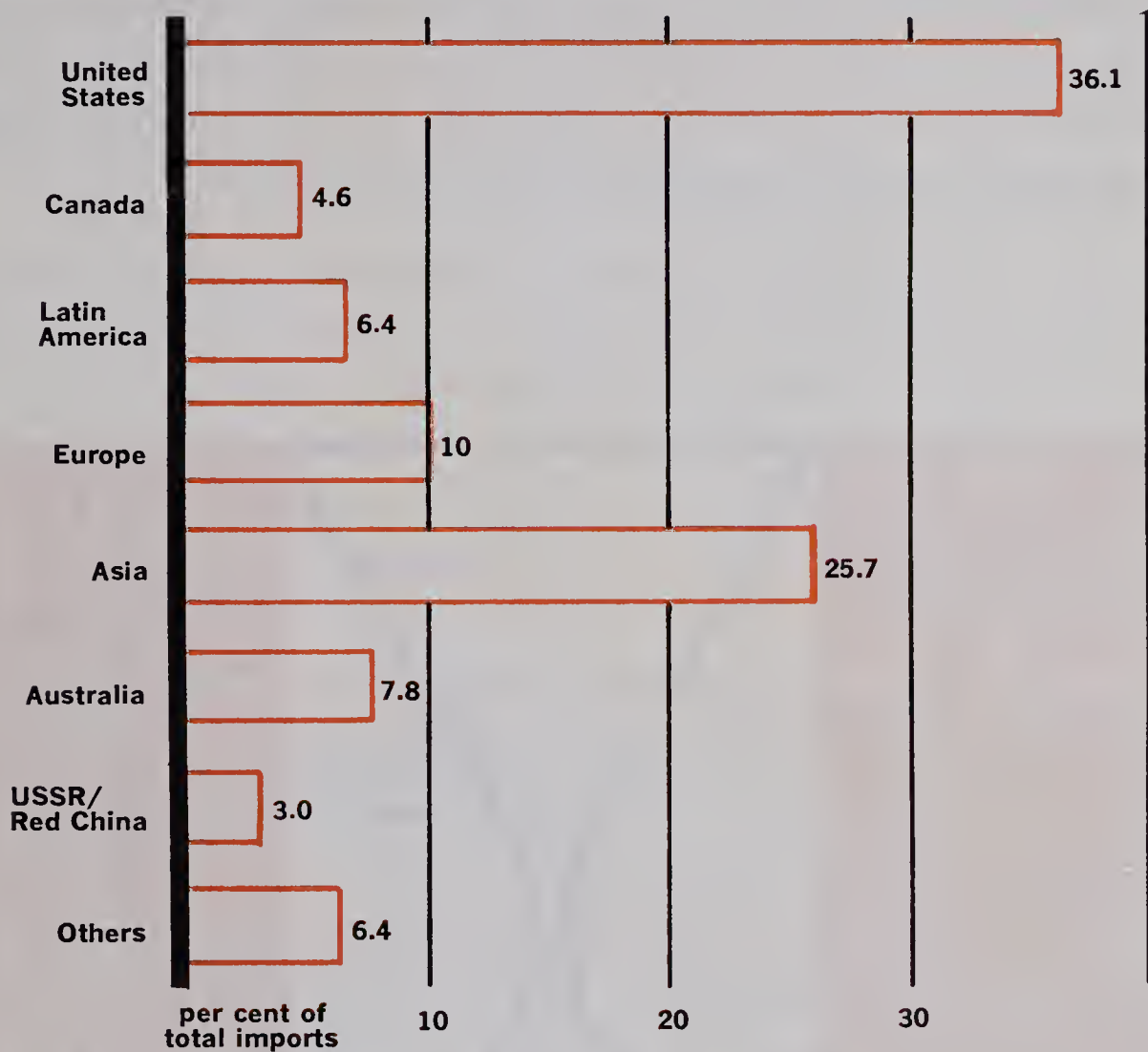
Japan needs many raw materials from abroad. Every day huge tankers loaded with oil arrive from the Persian Gulf and other places, and pump out their cargo into tanks on shore. Coal comes in from Australia, China, and the Asiatic part of

Japan Compared to U.S. Eastern Seaboard



the Soviet Union; even more comes from ports in the eastern United States. Cotton is shipped to Japan from New Orleans and from Mexico, wool from Australia, scrap iron from New York. Iron ore comes from Malaya and India. Sugar now comes from Taiwan (Formosa) instead of Cuba, which used to be Japan's largest supplier. The United States, Canada, and Australia supply most of the wheat.

Origin of Imports by Country



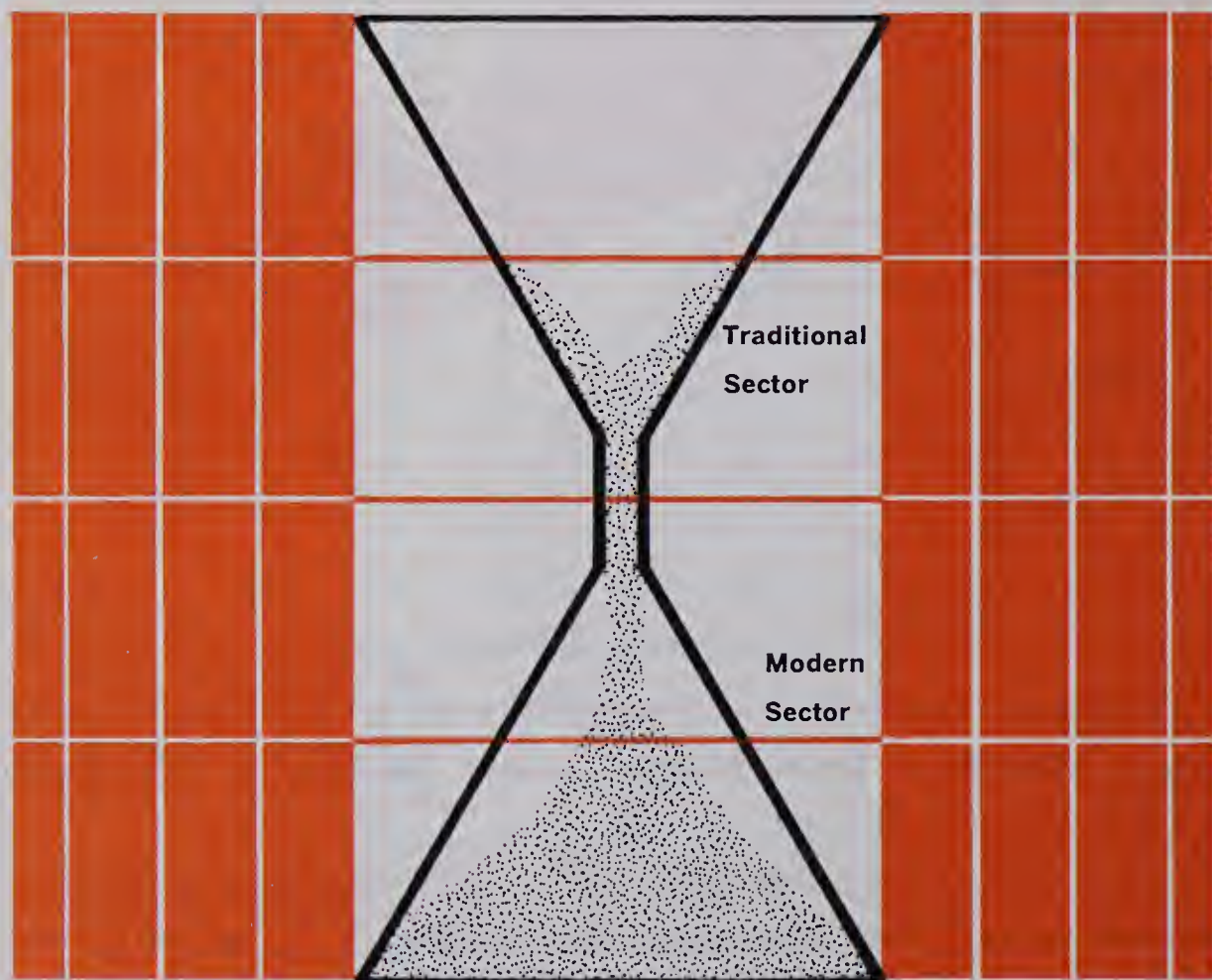
Source: Committee For Economic Development

Japan gets foreign machines and know-how by buying the latest inventions from foreign patent owners, or the best machinery from abroad.

Foreign capital also contributes to the Japanese economy. American and European companies invest in Japanese firms; individuals from abroad are buying Japanese stocks and bonds; the World Bank has made large loans to finance Japanese power plants, steel mills, railways, and highways.

Using these imported materials, machines, technology and capital, in addition to what is available at home, the Japanese keep on building and enlarging their economy. This is not like the economy of prewar days, but an ultramodern industrial one. It produced a national income equivalent to 38 billion dollars in 1961, or an average of \$403 for every person in the country.

Nearly all Japanese are literate; they are generally healthy and dress reasonably well. Almost every house has electricity and almost every family has at least one radio. More than half the families in the country own television sets, and many have other appliances—electric refrigerators, vacuum cleaners, washing machines, even automatic electric rice cookers.



Compared to the average income of \$2343 in the United States, the Japanese figure looks low. It is, for Japan is still a poor country alongside the United States. But no other Asian nation even approaches Japan's average income. And that income buys more than it would in the United States.

Not quite half of all the income produced by the Japanese economy comes from *goods*—rice, lumber, fish, minerals, buildings and factory products. All the rest results from *services* produced—trade, finance, insurance, government transportation, communications, other public utilities and other services. This greater value of services over goods, common in more advanced countries, is new in Japan since 1950.

Modern factories, banks, and trading houses operate side by side with tiny shops that sell trinkets or groceries, or make some particular product or component. This situation is called a *dual economy*. As Japan grows more productive and richer, more and more workers are finding jobs in the modern part, where work is done on a large scale. Fewer and fewer are left in the traditional, small-scale sector. Wages and working conditions are much better in modern plants and other large establishments.

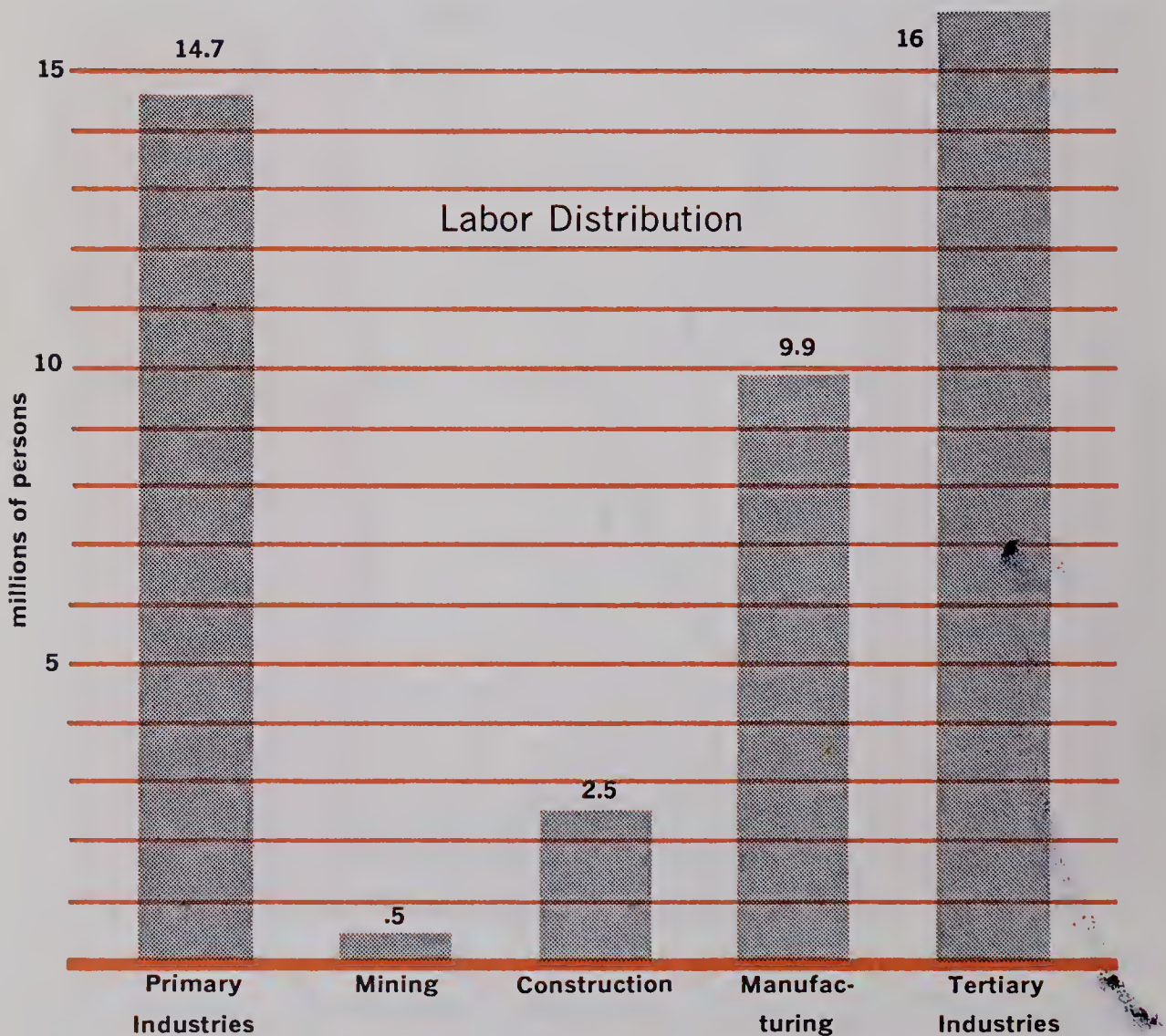
Private businessmen, large and small, manage day-to-day affairs, deciding what to produce, what prices they will ask, and how factories and offices shall operate. This is similar to what takes place in the American economy. However, businessmen's associations and the government play a more active role than in the U.S. Except during the Occupation Japanese businessmen have been much freer than American businessmen to work together. They can set prices, decide which company will get certain sales, and do many things that are prohibited in the United States. The U.S. considers such things restraint of trade; they are forbidden by our anti-trust laws, since it is felt that they cut down competition among businesses.

The Japanese government watches the economy closely. It has more power to interfere in its workings than does the American government. During World War II and the Occupation very

tight controls operated almost everywhere in Japanese business. Now the direct controls affect mainly imports (and even these are going out of use) and credit.

Labor unions have less influence in Japan than in the United States. One reason is that unions are newer. Neither unions nor employers have learned how to bargain in the American manner, much less to cooperate as some American employers and unions do. Many Japanese unions are also weakened by a Marxist influence that leads them more toward political slogans than “bread and butter” activities.

There are other reasons for this lack of union influence. The close loyalty between commoners and lords in feudal Japan lives on today in the relations between workers and employers. Employment, once it is “regular,” is permanent. A man seldom leaves for another job, and an employer seldom discharges a regular worker. When a worker finds a regular job, he “joins”



the company and in most cases stays with that company for life. His pay rises gradually through the years, increasing when he marries and when his children are born. He gets a bonus at the end of the year to help him settle his debts.

Cultural Factors Affecting The Economy

In the family, a Japanese man is traditionally the undisputed leader. As head of the family he commands respect and obedience. He also must provide for each member of the family. Family relations are much more formal than in the United States. This pattern is, however, weakening.

Today, when a head of the family dies, he may leave his property as he chooses, according to postwar law. However, the old tradition remains strong. This tradition requires that property be kept intact and handed on to a new head of the family, often before the old one dies. Usually the new head is the oldest son, but someone else may be chosen—perhaps a younger son, or the man the present head has selected to marry his daughter. In a business family, it may be a chief employee who has shown outstanding business skill. This tradition of keeping property intact promotes saving and economic growth.

In the traditional Japanese family, the woman's role was that of a hard-working subordinate. A wife did not usually walk beside her husband, but several paces behind. She did her husband's bidding, and was usually last to get a chance to eat or bathe. Sisters were subordinate to brothers. But the Occupation did much to improve the status of women. They were given votes. Wives are now allowed to own property separately from their husbands, and girls are officially free to choose their own husbands. Although there remain many ways in which women are treated as inferiors, their lot has improved a great deal. There is now much more equality than ever before, between husbands and wives and between boys and girls.

The hierarchical pattern of society inherited from feudal times helps decision-making a great deal. Fathers, employers,

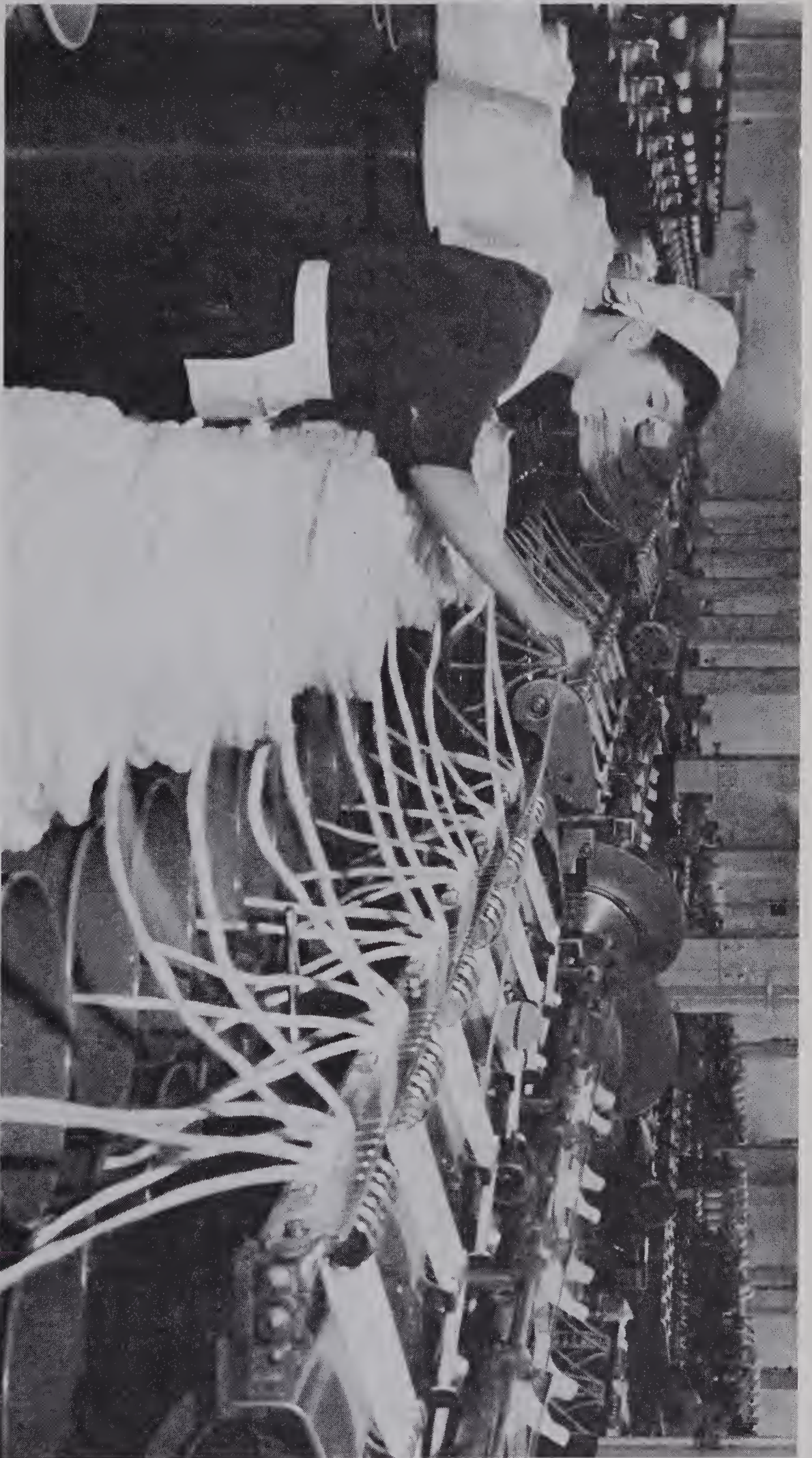
and other Japanese in positions of leadership usually take their duties seriously; all others tend to listen respectfully and obediently.

As a result, group action is often more successful than individual action. In a group, a Japanese feels protected in suggesting or trying something new. But whether or not the group and its leader agree with the individual, he obeys when the leader of the group has made his decision. Other Asian peoples do not have such strong habits of discipline in groups large and small.

The Japanese also tend to be thrifty. Living modestly is generally regarded as a virtue, even among the rich. Saving is also a virtue, and in recent years the Japanese nation has saved more of its income than any other nation. One reflection of this austerity is the continuing use of tiny, low-cost houses. Still, incomes have now reached the point where Japanese families can save a good deal and also be able to buy appliances, cameras and other articles that at one time were thought luxuries.

By hard work, discipline, honesty and thrift, the Japanese people have achieved success in businesses large and small, in government bureaus, and in public and private associations. The modern corporation, even in the form of huge firms with hundreds of offices, flourishes in Japan. In other Asian countries, on the other hand, insiders in many corporations try to cheat outsiders, including small investors and new customers; the corporate form of business is therefore more risky and less frequently successful than in Japan. In government offices also, Japanese are more honest and efficient than the government employees of most other Asian countries.

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1. What are Japan's special problems regarding her natural resources?
 2. Why do labor unions operate somewhat differently in Japan than they do in the United States?



Spinning machines in a Japanese textile factory

—Japanese Foreign Ministry



JAPANESE ECONOMIC PROBLEMS

It is obvious Japan can no longer live alone and apart from the rest of the world. Commodore Perry destroyed that Japanese policy, but even if it were possible for Japan to cut all its many ties with the outside world, the Japanese people would not now want to give up what these contacts provide. They are necessary for a modern life with a satisfactory living standard.

Japan gets much of its contemporary culture from other countries. The Japanese enjoy western music—from symphonies to jazz and rock-and-roll. Motion pictures are popular—from Hollywood extravaganzas and westerns to serious European films to technical films on safety and mental health. Art, drama, and books are imported from many countries in many languages.

But Japan's need for foreign contacts is not just in the areas of culture and the arts. Its daily living depends on many things from foreign countries. In the U.S., we depend on imports more than most of us realize—for coffee, cocoa, tea, sugar, spices, rubber, tin, chromium, nickel, and thousands of other things. But for every dollar's worth of production and income in the United States we import only about three cents' worth of things from foreign countries. In Japan, imports are about five times as important—15 cents for every dollar of production and income.

IMPORTING TECHNOLOGY

At the time of surrender in 1945, the Japanese productive equipment still in existence was mostly old and worn out. The Japanese had to build not only new offices and houses, but



These businessmen were the first to arrive in Tokyo to establish postwar trade negotiations

—United Press International

also new factories. They had to install new machinery, put up new powerhouses, and equip old ones with new generators. New locomotives and cars were needed for the railroads. Millions of new telephones had to be made, plus thousands of other things. But what kinds of factories were they to build? What products would the factories make? Could Japanese businessmen, engineers and workers learn to make things that could compete in foreign markets with the best that other countries could produce?

The Japanese met these problems in the same way they had met similar ones nearly a century earlier in the first years of the Meiji Era. They sent abroad for the most modern products and production. It was hard to do this while the Occupation prohibited contacts between Japanese and foreigners. But in time Japanese businessmen and technicians went abroad in small teams to learn and to bring back ideas and techniques.

The Occupation also brought foreign experts to Japan to help get the economy going again. Technical journals showed pictures of new products and new equipment, and explained new methods of production. Japanese specialists held many meetings to discuss what they could do and how they could do it.

Since 1950, Japanese businessmen have signed nearly 2,000 contracts with foreign businessmen for the use of patents, products, processes, and know-how.

For example, the General Electric Company (in the United States) and the Siemens Company (Germany) showed them how to make modern electric generators and transformers. The Radio Corporation of America and the Philips Company (Netherlands) sold them patent rights on radio and television broadcasting and receiving equipment. Swiss, American, and other companies sold designs for efficient railway equipment, and for airplane propellers, motors and other things. Companies in several countries sold designs and processes for steam and water turbines, and many kinds of machine tools. The duPont Company sold rights to produce nylon and other new fibers.

Japan has also trained many thousands of scientists,

engineers and technicians in the different aspects of modern industry. These experts are making foreign technology work as a part of daily life in Japan. They are also modifying foreign technology to fit their needs and circumstances. In some cases the Japanese have invented new products, such as a synthetic fiber called Kanekalon. And Japanese patent owners have in turn licensed their new processes or products to companies in the United States and elsewhere. A company in Maine recently contracted to make spinning equipment according to Japanese designs.

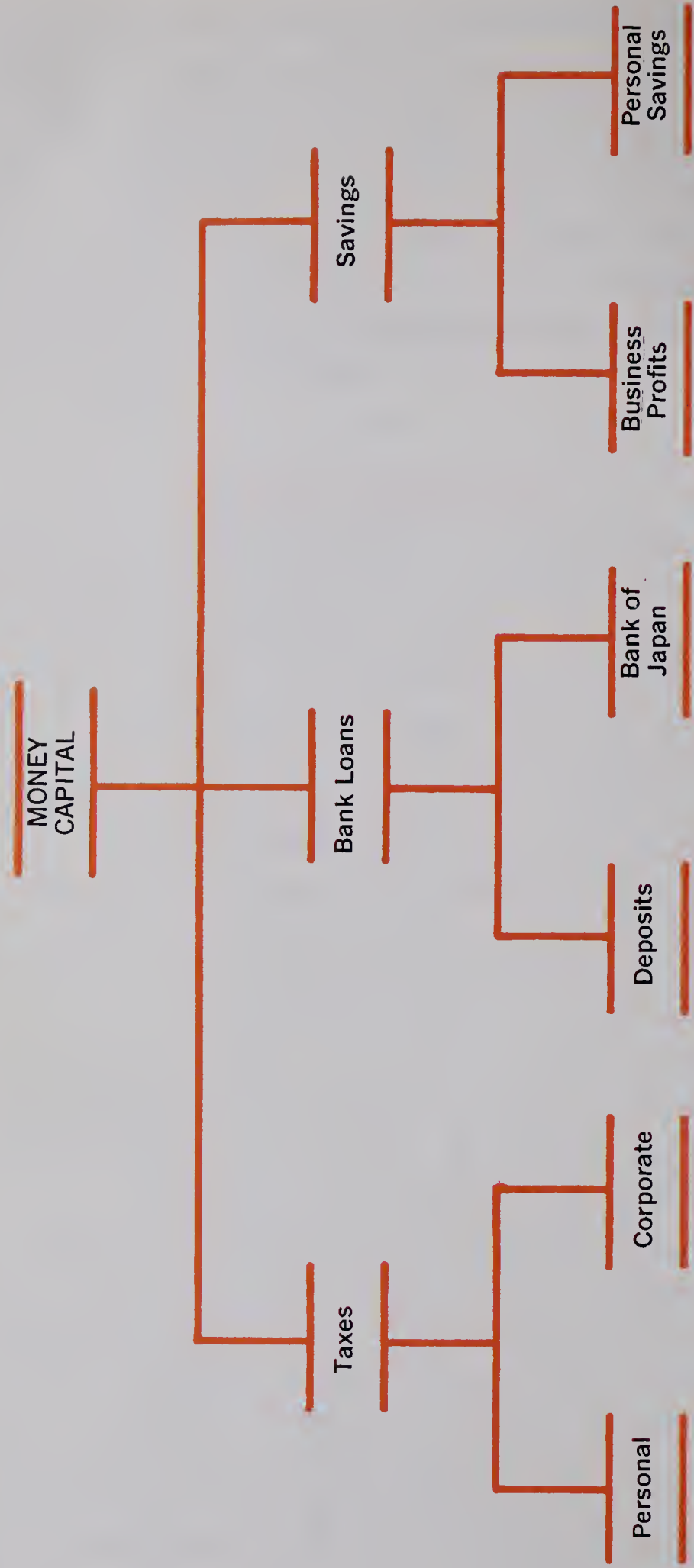
OBTAINING CAPITAL

The equipment of a modern economy is very expensive. One building may cost millions. Generators and powerlines cost more millions. Fire engines, bulldozers, power shovels, locomotives, dredges and pumps—all take money. So do hospitals, houses, schools, airports, subways, waterworks, and other facilities. Everywhere the Japanese turn they need expensive goods. They have many of them now, but they still need more. City streets are too narrow and too crooked. Highways are old and full of potholes. Harbors are crowded and need new cranes, docks, and more space. Most Japanese still live in cramped, fragile houses that burn easily. Vast new housing projects are high on the long list of Japan's needs today.

All these things are part of a nation's *capital*. They are things people produce but cannot immediately consume. You cannot live a modern life without such things. The Japanese are modern people and insist on having them.

Most countries build up their stock of capital slowly. Governments tax people a little each year to pay for streets, firehouses, schools, courthouses, and so forth. Businessmen add extensions to factories, or build new plants one by one. Railways add freight cars a few at a time. They pay for these with profits, people's new investments, and loans. Families build or buy houses when they have enough money for the down payment and enough income to pay off the mortgage over a number

Domestic Capital Accumulation



of years. All capital equipment costs money to maintain and repair. We must take care of existing capital at the same time we add new capital, or else the new capital may only replace the old, without adding to the total.

Japan has had to rebuild its capital stock extremely fast since 1945. Everything had to be done at once, it seemed. Otherwise the poverty and suffering of the early postwar years would have lasted on and on. As we look back on what they have accomplished, we cannot help being impressed. Their rate of capital formation in recent years has been higher than that in any other country in the world.

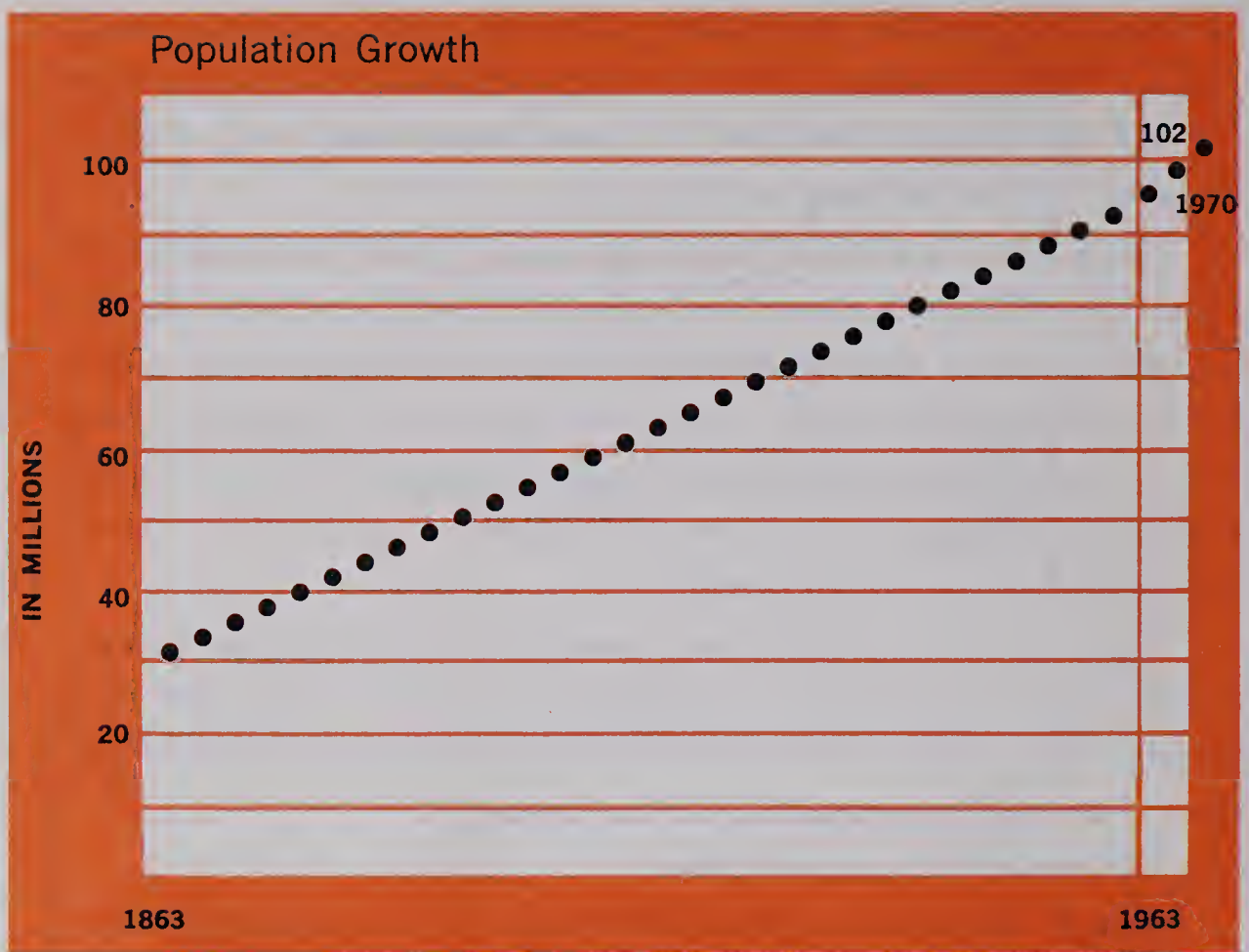
Some of their capital has come from abroad, but mostly the Japanese have saved enough year by year to pay for new investments. They have done it by three main methods: taxation, bank borrowing, and private saving.

Let us look at each of these:

Taxes in Japan are extremely high. The national government collects most of the revenue. It spends part of it, allocates some to provincial and local governments, and still has a good deal left over to lend to businesses. As in the United States, private enterprise is the main form of economic activity. Government bureaus sometimes have a harder time getting money from the budget than do businesses. Government pay is relatively low and offices relatively modest compared with business offices. Many people feel that money spent by the government is not so useful as money spent by private individuals and companies.

Still, various levels of government in Japan have built many public works. These include public buildings, water and sewer systems, roads, schools, hospitals, playgrounds, and other facilities. Tokyo and other cities are growing rapidly, partly because the population is growing and partly because country people are moving to the cities. Japan is going to have more and more difficulty until something is done to get public facilities to catch up to pressing needs.

Today, Japan's population is growing more slowly than



America's. In the United States the rate of growth is 1.5 per cent a year. In Japan the rate is a little below 1 per cent a year. It is the only non-western country to have a low birth rate. This has happened only since World War II. So, even though streets are jammed with traffic, and there are almost unbelievable crowds on the trains and subways in Tokyo, some kindergartens and primary schools are not full.

Governments in Japan, especially the national government, usually have surpluses of receipts over regular expenditures. Taxes remain high, although rates are coming down a little. These surplus funds are put into agriculture, hospitals, small business, and other special uses.

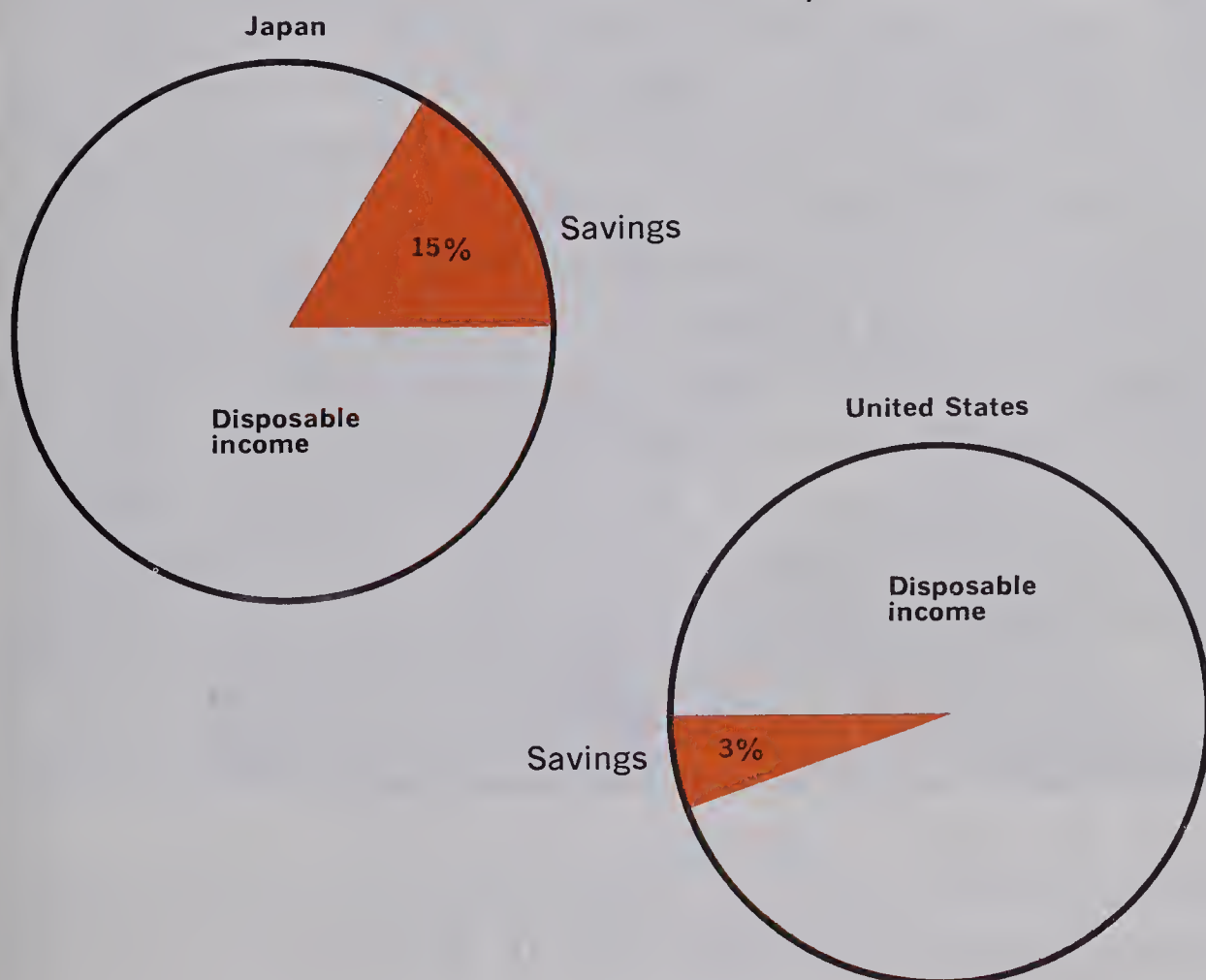
Bank loans are a second way that Japan finances capital formation. Like the government organizations just mentioned, commercial banks lend money to businesses to buy machinery and other equipment. In the United States banks do not like to lend money for long periods; they demand that borrowers repay in a few months or a year. Japanese banks are less strict. Sometimes bank credit finances construction of buildings and

other facilities that do not earn their cost quickly. This easy bank credit has paid for a large part of Japan's postwar economic growth.

Much of the money the banks lend comes from depositors, as in the United States. When people put money in a bank, it does not just lie in a vault. The bank puts it to work by lending it out. Japanese banks have made loans far beyond the money that has come in as deposits. This extra money comes from the Bank of Japan, or what economists call the central bank.

Individual and company savings are the third source of capital formation. Companies in Japan have been earning large profits in recent boom years. Some they pay out to shareholders in dividends. But companies in Japan, as in the United States, like to keep some of their profits for expansion. They also pay for more expansion by selling new shares of stock, which people buy with money saved from their wages and other income, including dividends.

Per Cent of Disposable Income Saved



Japan's high rate of saving, and the investment of these savings in productive facilities, have created most of the new factories, offices, trucks, cars, ships, and other things. Some capital is also coming into Japan from the United States and other foreign countries.

Japanese resources are not rich, but they are enough. Skill, hard work, saving, and trade make the available resources adequate. Prosperity the Japanese already have. High incomes they do not have yet, but at the rate incomes are rising, Japan will be a high-income country before very long.

EXPORTS

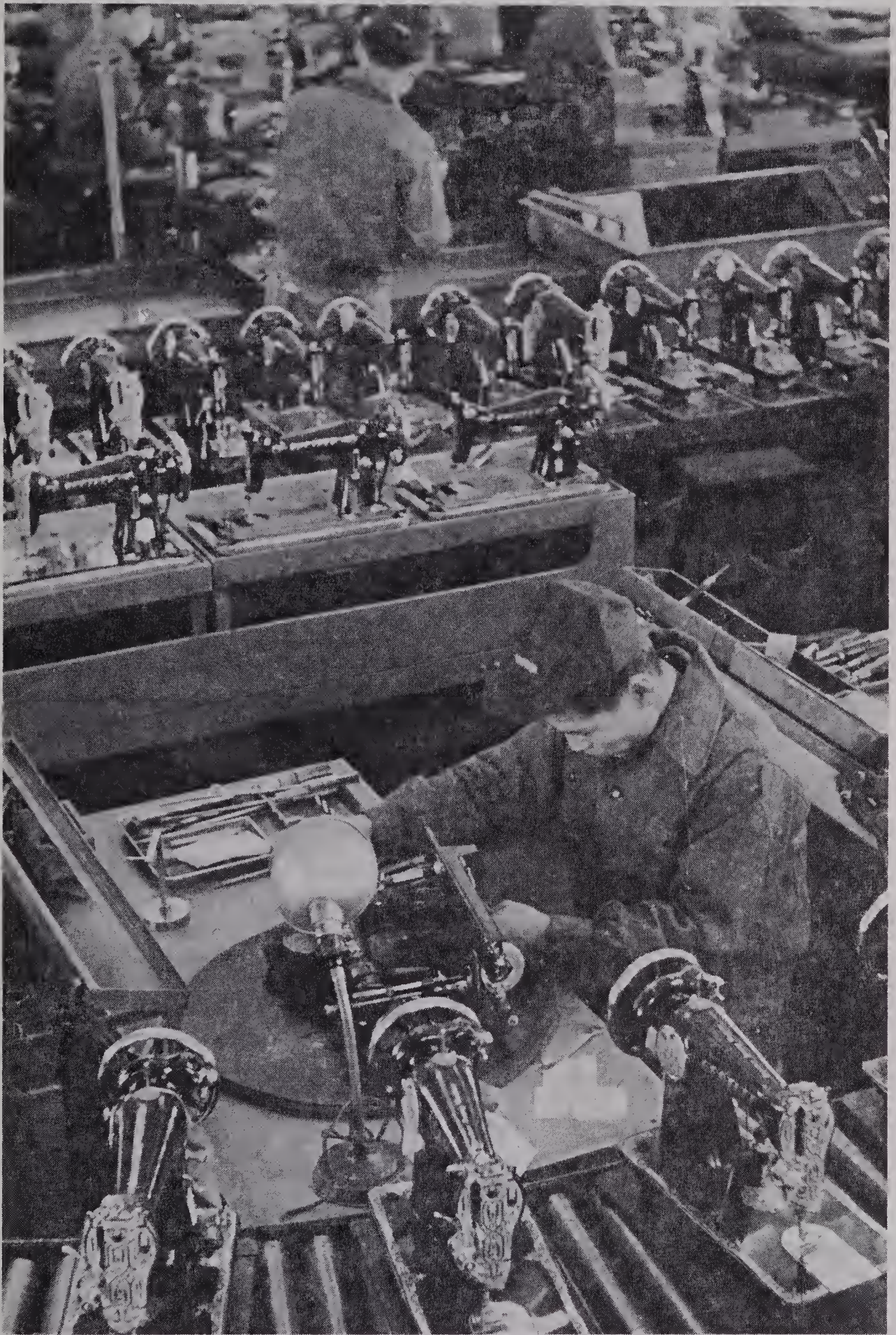
To pay for the many goods and services Japan must get from abroad Japanese importers need foreign currency. The suppliers in America, Europe and elsewhere do not want yen. So Japan must earn foreign currencies, such as American dollars, by selling Japanese goods and services abroad.

You find the label, "Made in Japan," everywhere, it seems. If you go to Washington, D.C., you may buy a souvenir of Washington made in Japan. You could do the same thing in Stockholm or Paris, and many other places near and far.

Souvenirs and sewing machines, blouses and pearl buttons, trinkets and toys, fountain pens and vitamin pills, and a long list of other products flow out of Japan to stores and customers all over the world. Many of these products are cheap, and a few are of poor quality or design. But many fabrics, such as silk brocade, are expensive. Japanese microscopes, cameras, and other instruments are of excellent quality. Although most products are small, Japan also exports supertankers, locomotives, and modern factories.

Today Japanese exports include so many products it takes hundreds of pages of trade reports to list them.

These exports do not come only from small shops where men and women make things with the skill of their hands. More and more are now coming from the modern, efficient factories built since World War II. Today Japan sells more



*A modern, efficient Japanese factory turns out sewing machines
for sale in the United States*

—Japanese Foreign Ministry

factory products in the United States than does England, Germany, France, or any other country in the world. (Only Canada sells more in the United States than Japan does, and Canadian exports are not so much factory products as wood pulp, paper, and minerals.)

Exports To Industrialized Countries

Japanese exports have caused problems. American textile companies object to the competition of Japanese cotton and woolen goods. American clothing workers protest the importing of men's suits made in Japan. Similar protests come from Americans who make umbrellas, baseball gloves, chinaware, stainless steel tableware, plywood, and many other products.

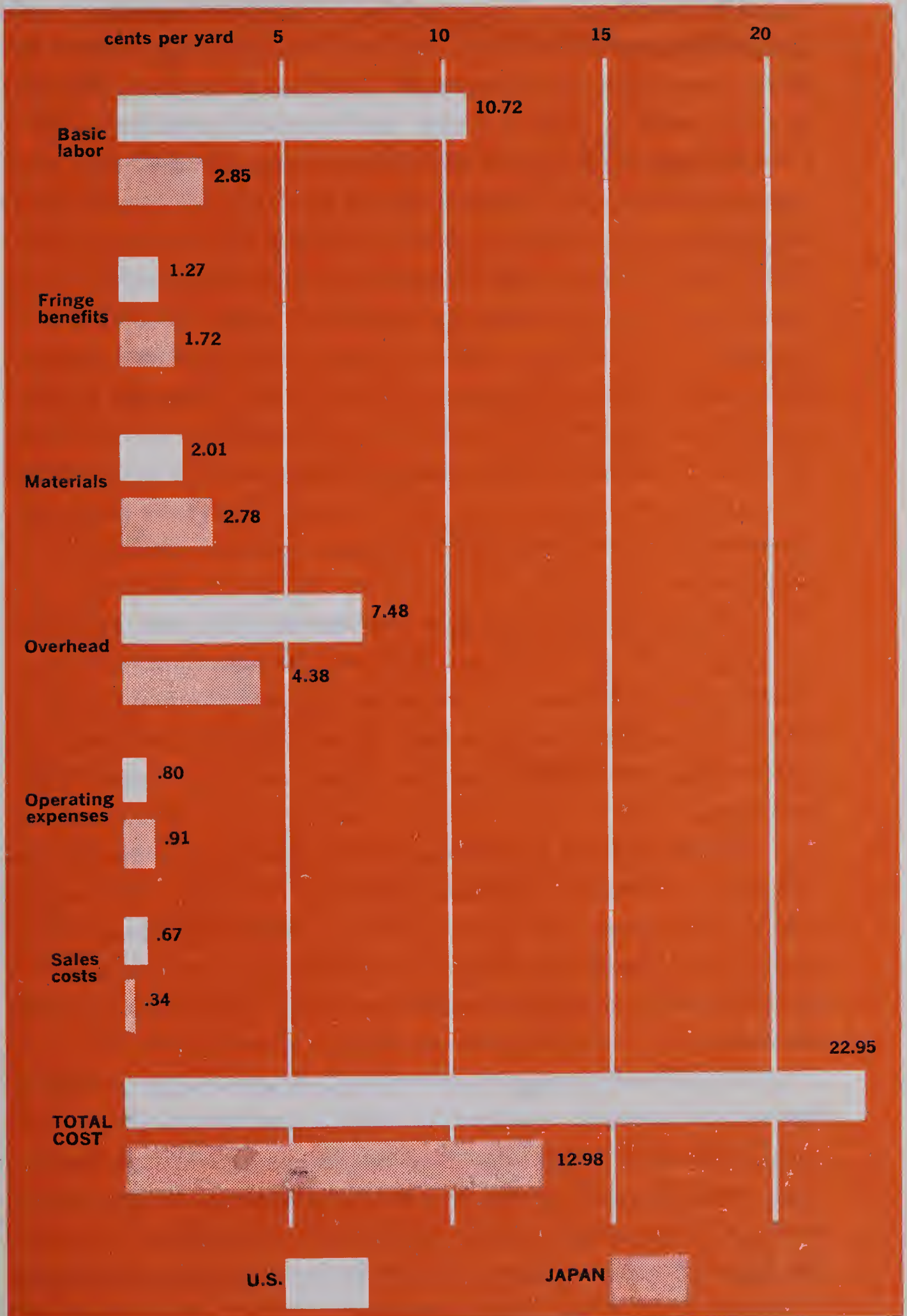
The difficulty is that these Japanese products are very similar to the same American products. If Americans buy many Japanese goods, they may buy less of the similar product made in the United States. This could mean that an American factory might have to cut down production, lay off workers, or even close down.

If all Japanese goods were such things as raw silk or pearls, which Americans cannot or do not want to make, then there would be no problem. Japanese competition would not be taking customers away from American factories or jobs away from American workers. But Americans make almost every kind of factory product, and factory products are the main goods the Japanese have to sell. So there are very few Japanese products that do not compete with American products.

Then why can the Japanese sell their products in the United States? Are the Japanese goods better? Sometimes, but not always. Sometimes they are poorer in quality. Are the Japanese goods cheaper? Yes. Most Japanese products sell for less than a similar American product. If it weren't for these lower prices, we might not buy very many Japanese products.

But how can they sell them cheaper? How can Japanese cotton cloth be cheaper than American? The Japanese must buy cotton in New Orleans, carry it all the way through the

Cost of Manufactures: Japan vs. United States **GINGHAM FABRIC**



Source: U.S. Dept. of Commerce

Panama Canal to Japan, make it into cloth and then ship it back through the Panama Canal to New York. The American mills need only to ship the raw cotton from its growing point in the South to a mill in, say, South Carolina, and then ship the finished cloth by train or truck to New York or other markets.

First of all, ships are the cheapest way to carry large loads over long distances. It costs little more to ship American cotton to Japanese mills than to send it to American mills. It costs only a little more to ship cotton cloth from Japan to New York than from South Carolina to New York. Some American businessmen say they have *no* advantage over Japanese mills in the transportation of raw cotton and cotton products. Besides, the cost of transportation is only a small part of total cost. So in the case of cotton textiles, transportation costs are not much of a handicap to Japan. They are a more important factor for such bulky or heavy products as coal, iron ore, pig iron, steel and others.

Then what are the major reasons why Japanese goods are cheaper? First of all, most Japanese factories are very new, modern, and efficient. Second, Japanese plant managers are as highly trained and work as hard as, or harder than, American plant managers. Third, Japanese wages are lower than American wages.

Their wages are lower because the country is poorer. It has been hard for many Japanese to get jobs. Employers can employ high-school graduates at very low pay and train them. Some become as efficient as American workers. As a result, Japanese factories often produce goods at a lower cost than American factories.

This is beginning to change. Japanese wages are rising because of increasing prosperity. More and more jobs are now available, so that employers cannot always find all the workers they want. Recently young Japanese graduates from high school, college, or graduate school have had a choice of jobs; this is new in Japan. Japanese wages are already far above those in Korea; Taiwan, Hong Kong, India, and other countries which have not

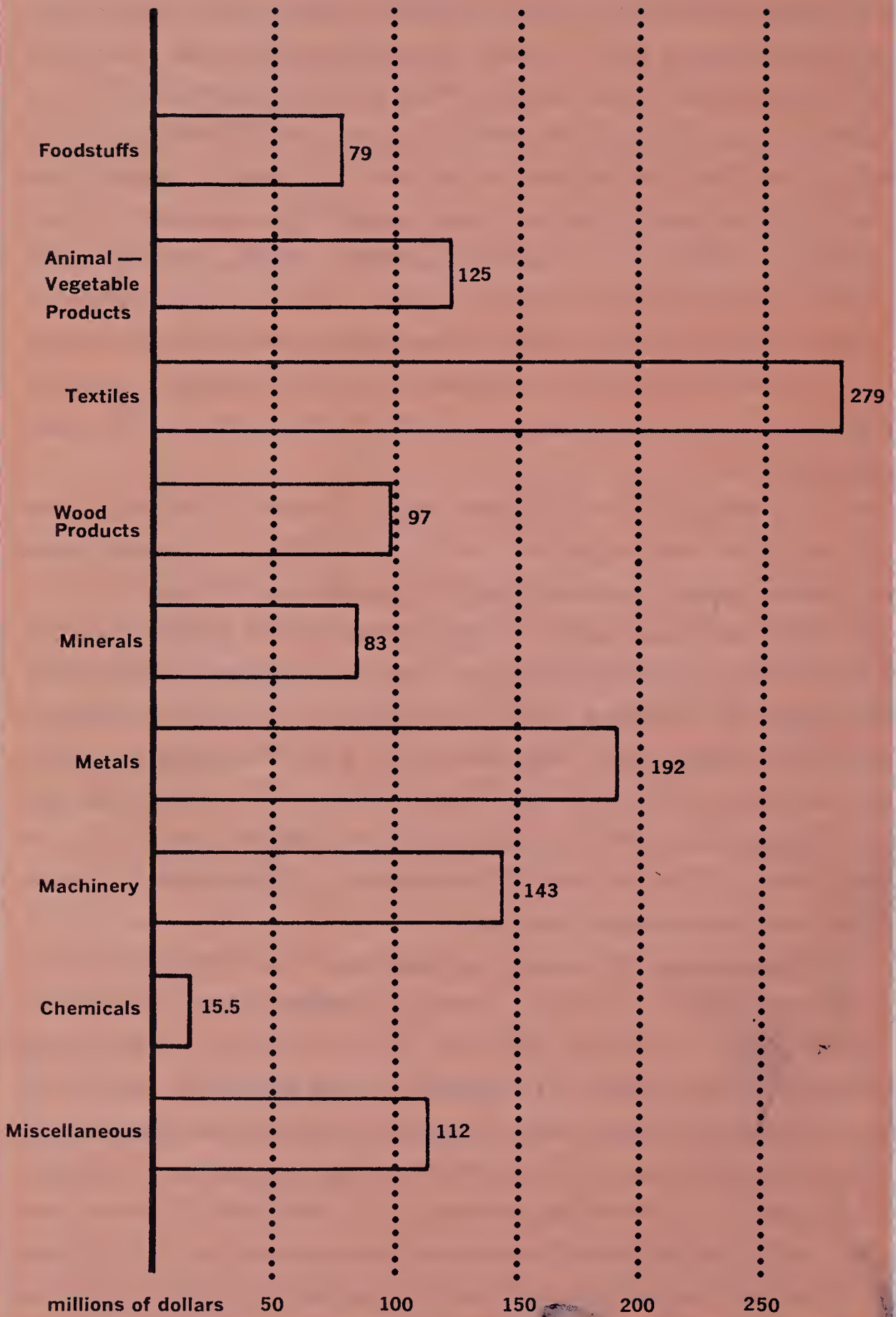
yet developed as far as Japan. Japanese wages have reached the lower European levels.

When the technical efficiency of Japanese and foreign factories is the same, these lower Japanese wages will usually make production costs lower. Often Japanese production costs will be lower than in American factories even if Japanese efficiency is lower, too. This will be true as long as the difference in wages is greater than the difference in how much each worker produces. Japanese efficiency is usually lower than in America, but often the difference is slight. Japanese wages, however, are usually much lower, sometimes only a sixth or an eighth as much. The girls who assemble transistor radios in Japan get far less than American workers in radio factories. Japanese electronic engineers receive much less than American electronic engineers do.

It is very hard to compare wages because different things are included and wages are calculated differently in different countries. Japanese workers generally get more "fringe benefits" than do Americans, such as cheap meals at the plant, cheap or free housing, free vacations, and use of company playgrounds. So Japanese workers' total earnings are not so small as they may seem from wage statistics. Still, earnings in Japan are far below those in the United States. The result is that the Japanese can make many goods at lower prices than can Americans. This is true of transistors, binoculars, cameras, shirts, and many other products.

Even though Japanese wages are much lower than those in such countries as England, France, Germany, and the United States, there are many products these Western countries can produce more cheaply. The fertile prairies of Canada, Australia, and the United States make the cost of wheat lower. In the case of automobiles, tractors, and many other products, the volume of American production is far enough ahead of Japanese production to make these American products cheaper. The same reason also makes many European products cheaper than the Japanese.

American Imports from Japan



Source: Joint Economic Committee

Then there are some products, such as the most advanced computers or the largest jet airplanes, that cannot be made in Japan at all—yet. There are products on which a country has a monopoly or which have some unique quality that the Japanese cannot duplicate. French perfume, the latest American automated equipment, and high-performance Swiss machinery are good examples.

There are, of course, many products Japan cannot make so cheaply as foreign countries do. This is a large part of the explanation of why Japan imports so much. The United States sells Japan not only raw materials and foodstuffs but also large quantities of machinery and other manufactured goods. In fact, American exporters sell in Japan much more than Japanese exporters sell in the United States. From 1945 through 1962 Japanese imports from the United States were exactly twice the dollar value of Japanese exports to the United States.

Whichever direction trade is flowing, there is nothing unfair about selling goods for less when they are produced at lower cost. Some Japanese products must be cheaper if Japan is to sell abroad and pay for necessary imports. It happens that every country can produce some things for less than other countries can. Also, every country finds that there are certain other things that it could make, but that would cost too much to compete with imports. International trade depends a great deal on these differences in relative production costs between countries.

Even if lower Japanese prices are not unfair, they still make some foreign competitors very unhappy. To ease this feeling the Japanese have cut back some of their exports. For instance, they have agreed to send only so many yards of particular kinds of cloth to the United States. The Japanese dislike these restrictions, and bargain hard with the United States and other countries over the amounts they will be allowed to ship. However, they realize that if they impose these restraints themselves, countries may not raise their tariffs or impose quotas. Therefore, the Japanese will be able to sell more this way.

These problems of Japanese exports in the American mar-

ket occur in other markets as well. Japanese exports to Great Britain, Canada, France, Australia and other high income countries are important, but sales there are smaller and in several countries are rising less rapidly than in the United States. Japanese businessmen are especially troubled about the European Common Market. This group of six nations—France, Germany, Italy, Belgium, Luxembourg and The Netherlands—is working toward economic unity. They have lowered trade barriers, including tariffs, among themselves. Toward outside countries, Japan and the United States among them, the countries of the Common Market will apparently keep their trade barriers up. The first aim of these countries is the growth of their own economies.

Japanese as well as American exporters are concerned. Japanese businessmen would like to sell in the European Common Market just as they do in the United States. Americans agree, but so far the Common Market countries are unwilling to change their policy.

Exports To Underdeveloped Countries

In the underdeveloped countries, Japanese exports meet different problems. Sometimes these countries also try to protect their domestic production against imports. This is happening more and more in countries, such as India, which are working hard to build up their industries and develop their economies. But there are many things these developing countries need to import. Aside from consumer goods, they need machinery and partly finished goods to process in their new factories. Raw materials and food are often needed as well. Japan can provide much of the machinery and many of the consumer goods that these people want to import.

The problem is that most of these countries are poor, much poorer than Japan. Their people do not have the money to buy radios, cloth, and all the other things people like to have and use. They cannot afford all the machinery they would like to

have, either. Like Japan, these countries must export to get money to pay for imports. But unlike Japan, most of these countries have not been doing well in selling abroad. There are surpluses of the commodities they have to sell—rubber, coconuts, sugar, cotton, coffee, cocoa, and tea. There is not as great a demand for these things as there is for the factory products that Japan sells.

Japanese exports to the poorer countries are small because the countries are poor. Japan will be able to sell more to these countries as they grow richer. But this will take a long time. As a result, despite the limits set by richer industrial countries, Japanese exports to these countries are growing faster than to the poorer ones.

Trade With Communist Countries

Russia and China are both close neighbors of Japan, as is North Korea. North Vietnam is farther away, and the European communist countries are even farther. Japanese businessmen want to make sales, and the communist countries need many products.

Present international rules allow Japan to sell to communist countries almost anything but a few strategic products such as arms, ammunition, and nuclear specialties. Still, post-war Japanese trade with the communist bloc was small until in the late 1950's the Soviet Union began to buy Japanese products. Now Japan's trade with Russia is big enough to notice, but is still far behind the huge volume of trade with the United States.

China is Japan's oldest trading partner. During Japan's long period of isolation, Chinese ships would come to trade once in a while. More than that, during the earlier centuries Japan had acquired from China a system of writing, two of its religions (Buddhism and Confucianism), ideas about government, and other important parts of Japanese culture. Japanese feel emotionally close to China, in spite of the cruel things Japan did to China before 1945.

So it was hard for Japanese traders to go along with United Nations resolutions against trade with China after Chinese troops intervened on the communist side in the Korean War. As international rules relaxed, Japanese businessmen gradually tried to sell and buy more in China. Japanese traders want to trade and do not care much about the politics of the people who buy.

But the Chinese communists have proved to be very poor trading partners. As former victims of Japanese aggression, Chinese still hold a deep hatred for Japan. It is even deeper for communists because of Japan's friendship with the United States. Chinese communist economic plans are so ambitious, recent difficulties so severe, and obligations to the U.S.S.R. so large, that China has not had much to sell to Japan. Such things as coal, iron ore, wool, and cotton are needed at home. Some soybeans and coal have gone to Japan, as well as lac (for lacquer) and other minor items. But the total has remained small.

As a customer for Japanese exports, communist China has been even smaller. Often unwilling, perhaps unable, to pay cash, the Chinese have kept their actual purchases down, while talking to the Japanese about big orders for prohibited items. Lately the Chinese have begun to open up trade a little after a period of angry refusal to buy.

The basic difficulty in trading with communist countries is that they want to make Japan communist—sooner or later. This is more important to the communists than trade. The present serious quarrel between Moscow and Peking may make Russia more interested in expanding trade with Japan. Perhaps China too may show more interest.

FOREIGN EXCHANGE CRISES

Japan pays its way in the world by exporting goods, by selling goods and services to American troops, by running hotels for foreign travelers and ships to carry foreign goods. But three times in the past ten years Japanese expenditures abroad have

jumped so far above receipts abroad that Japanese reserves of dollars ran low. Each time, when the crisis grew serious, the Japanese government stepped in and forced a reduction in imports.

Fortunately, exports have kept growing; the situation never became so difficult as it would have been if earnings had shrunk seriously. Each crisis has forced some slowdown in the construction of new factories and the like, but each slowdown has been followed by a new boom and further rapid economic growth.

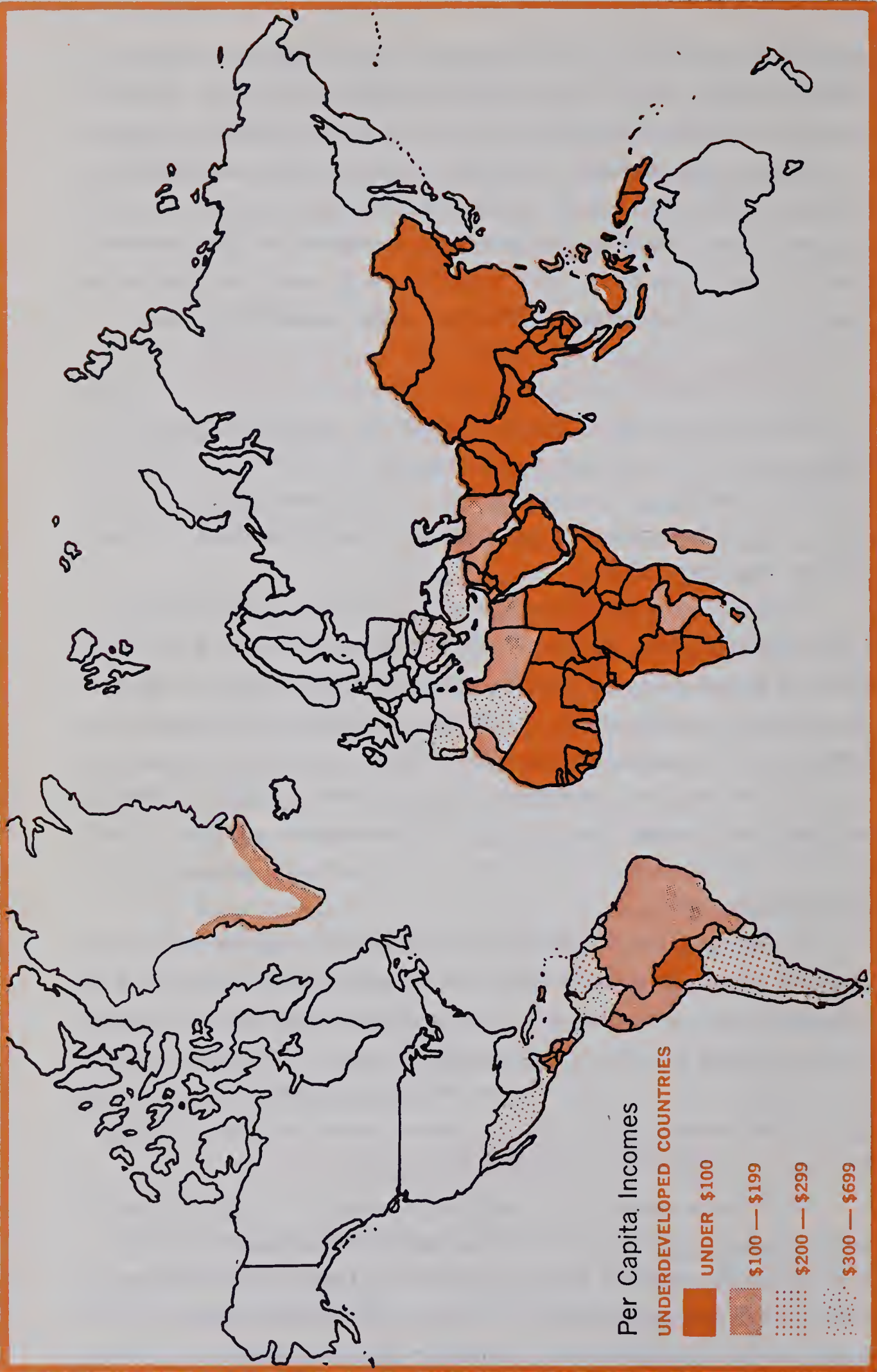
PROBLEMS OF STATUS FOR JAPAN

High-level prosperity is still a new experience for the Japanese people. What is more, the memory of defeat is still fresh in their minds. So is the realization that Japanese troops treated other Asians brutally during military operations and occupation of their territories.

Within Japan people have a strong sense of rank and status. In a delightful play in New York a few years ago, an American went to Japan and at a certain point in some delicate negotiations found his Japanese counterpart suddenly cold and unfriendly. After a difficult time the American discovered that he "bowed too low" and so insulted the Japanese. In Japan people are used to bowing just enough. They respect people above them in the hierarchy and expect deference and respect from those below.

In their relations with the United States, Japanese feel their country stands in a lower position. So Americans in Japan get not only the traditional Japanese politeness but also the extra deference due to the greatest nation on earth. But when Japanese look at Asia, they feel superior. Unconsciously they expect special deference. They are not always aware of these feelings, but their conduct frequently betrays them.

With such status-consciousness, Japanese are very interested in how their country looks to foreigners—how they rate Japan. It is painfully evident that they still rate Japan below the most advanced European countries. They discriminate against Japanese trade. Until recently a number of these countries did not



give Japan all the privileges members receive in the GATT (General Agreement on Tariffs and Trade). GATT is an organization of countries working together to lower tariffs and expand world trade. Japan is the only member of GATT treated in this way. It feels like a member of a club who cannot use the main rooms and must come and go by a side entrance.

Another way European countries discriminate against Japan is by not admitting Japan to full membership in the Organization for Economic Cooperation and Development (OECD). This is a group made up of all the leading (non-communist) industrial countries, except Japan. Sometimes Japan is permitted to sit in, as a silent observer, at meetings of the committees on economic policy and the committee on financial policy.

A third committee of OECD deals with foreign aid. It attempts to get the members to make their foreign aid programs fit together. Japan is a full member of this committee. Again Japan feels abused at having to pay dues (in the form of foreign aid), but not being called a member or allowed to use this "clubhouse," except as an invited guest, or when the dues must be paid.

So, their own record and the discrimination of other countries have convinced the Japanese that their country is not accepted as one of the world's great countries. They yearn for acceptance. They are trying to live down their past record. They feel their economic performance has earned them equal treatment in GATT, and also full membership in the OECD. Both these objectives will be reached, perhaps before long. Meanwhile this treatment remains as a sign of lowly status to a people who are very sensitive about status.

There is another side to this matter of status. That is responsibility. In Japan people of high status carry heavy responsibilities to those below, just as people below defer to those above. But in international economic affairs Japan has been slow to let competitive foreign goods into the Japanese market as freely as it thinks its goods should go into foreign markets.

We can see that Japan has some more climbing to do before reaching the top of the status ladder in international economic affairs. In some ways the Japanese want higher status. In some ways they seem afraid of it.

1. Japan's "rate of *capital formation* in recent years has been higher than in any other country in the world." What does that statement mean? What made her rate of capital formation possible?
2. In 1945, Japan was nearly destitute as a nation and was devastated by war. In the space of ten years, by 1955, how did Japan manage to modernize and develop her industrial sector?
3. Compare labor conditions for a typical Japanese employee in a modern plant with those of a typical American employee in a comparable modern plant.
4. What problems does the European Common Market pose for Japan's economy?



JAPAN, THE U. S., AND THE WORLD ECONOMY

JAPAN NEEDS THE UNITED STATES

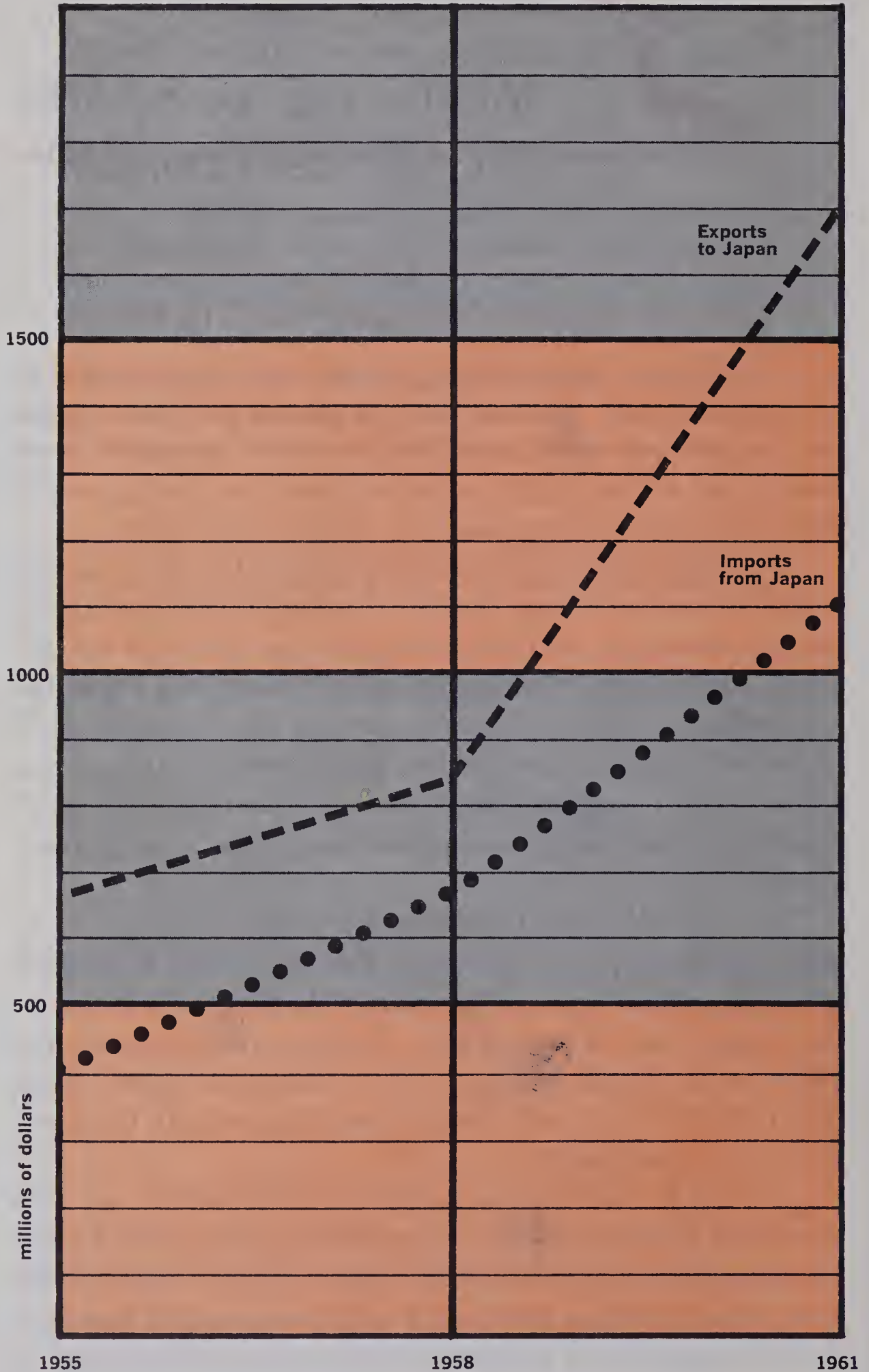
The United States is Japan's largest source of imports. It has provided more than one-third of all the goods that Japan has bought from abroad since World War II. Also, the United States is by far the largest customer Japan has, buying nearly one-fourth of everything Japan has exported since 1945.

For Japan's economy, the United States is far more than just a huge export and import market. The United States, of course, was the leader of the Occupation and the source of the aid Japan received then. The special dollar income that Japan has received, especially from American troops, has helped Japan to pay its bills abroad. In fact, at the end of 1961, the total of this special dollar income was larger than the total dollar volume of Japanese exports to the United States during the whole postwar period.

In addition, most of the foreign technology Japan has imported in recent years is American. The largest part of the capital imported into Japan is American. Most tourists in Japan are Americans. And the United States has supported and sponsored Japan in the United Nations, GATT, and other organizations. The United States is now trying to help Japan obtain full membership in the OECD.

Although Japanese competition has frightened, and even sometimes injured some American producers, the United States has generally let Japanese goods come in without official limitation. Many products must pay a tariff to enter our American market, especially the competitive goods that Japan sells. But on

United States — Japanese Imports and Exports



1955

1958

1961

Source: U.S. - Japan Trade Council

most products the rates are not so high that they keep the goods out. The United States has led a movement to cut tariff rates and remove other trade barriers in order to let world trade flow and grow. Although Japanese goods cause more complaints by American businessmen than goods from any other country, the United States has been lowering tariffs on some Japanese products such as cotton textiles, clothing and radios.

American customers have been buying more and more from Japan. Sometimes American businessmen go to Japan with suitcases full of sample blouses, cigarette lighters, toys, trinkets, and even parts for cameras and machines. They look for Japanese firms, often small shops, to make thousands and thousands of copies of these samples. These Japanese producers do not need to be experts on what to sell in America, or how to sell it. All they need to do is make what the American importers or buyers order.

Sometimes the competition from Japanese goods has been so sharp that the United States government has taken steps to reduce the inflow of certain products. For instance, President Eisenhower raised the tariff rate on clinical thermometers and on cotton cloth for typewriter ribbons. President Kennedy has raised rates on some kinds of carpets and glass. There have been a few other cases, but these items are minor. They are not the multi-million-dollar items which have helped Japanese trade become big business.

But this is not all that the United States has done to slow down the flow of imports from Japan. Several times American officials have asked the Japanese government to urge Japanese exporters to ship less to the United States. The most notorious case of this kind concerns cotton textiles, which we shall look at a little later.

Another case is stainless steel flatware—knives, forks and spoons for table use. American producers complained loudly about a rush of imports of this flatware from Japan. They asked our government to do something to keep the imports down. Representatives from a little Japanese town where flatware is

made came to see President Eisenhower. They pleaded with him not to raise the tariff or place a quota on imports. Instead, they promised to put their own quota on what they shipped. At first, the President agreed. But the quota on exports did not work very well, mainly because some merchants avoided the restrictions. They bought the Japanese flatware in Hong Kong and then imported it into the United States. Finally President Eisenhower ordered that when imports went over the Japanese quota, there would be a high tariff on the extra imports.

Now the Japanese government and many Japanese producers realize it is to their advantage to be careful about how much of any particular product comes into the American market at one time. They understand that a sudden rush of one item may cause so much trouble that the United States government will help the American producers. Japanese try to avoid such "market disruption." They often take steps to keep producers of a particular item from "flooding the market" in the United States with this item. This restraint is called "orderly marketing."

Because of this, the United States government has not had to interfere very often with Japanese sales. Relatively few Japanese export quotas have been set—perhaps two or three dozen. When you consider the thousands of products that Japanese manufacturers sell in the United States, this is not very much interference with trade.

By limiting sales of "sensitive" items such as textiles, tuna fish, plywood and hooked rugs, and finding more and more new products to sell in the United States, Japanese businessmen and the Americans they deal with have raised Japanese sales in the United States to record levels.

Japanese sometimes complain about American actions and attitudes. But the United States has generally treated Japan well during the postwar period. We have done a great deal to help Japan earn a living. Most important for Japan is our willingness to buy Japanese goods. This export success has made Japanese prosperity solid and, we hope, lasting.

JAPAN IS IMPORTANT TO THE U. S.

As the volume of goods flowing both ways across the Pacific Ocean increases each year, Japan becomes more important in American trade. There are many other ways in which Japan is important to Americans, but trade brings about more contact between Japanese and Americans.

We have seen that since 1951 Japan has climbed from 17th to second place in the countries from which the United States imports goods. Now Japan is also second as a market for American exports. In 1951 it was in fifth place. Americans sell much more in Japan than the Japanese sell here. Since the end of World War II, Japan has imported from the United States twice as much as it has exported to this country.

The United States sells Japan a long list of different kinds of products. Two-thirds of our total exports are food and raw materials. One-sixth is machinery. For many goods Japan is our largest foreign market. This is true for cotton and for agricultural products generally. Japan is more helpful than any other country in buying our large surplus of farm commodities.

Thousands of Americans in every state are working in jobs that depend on sales to Japan. These are many, many more than the few workers who lose jobs because of imports from Japan. The volume of sales to Japan has gone up sharply in the past decade.

But Japan brings problems as well as profits to American businessmen. It is true that Japanese competition has caused some workers to lose jobs, some plants to close, and some firms to go out of business. The numbers of Americans hurt are not large. Imports from Japan are only about a quarter of one per cent of United States national income.

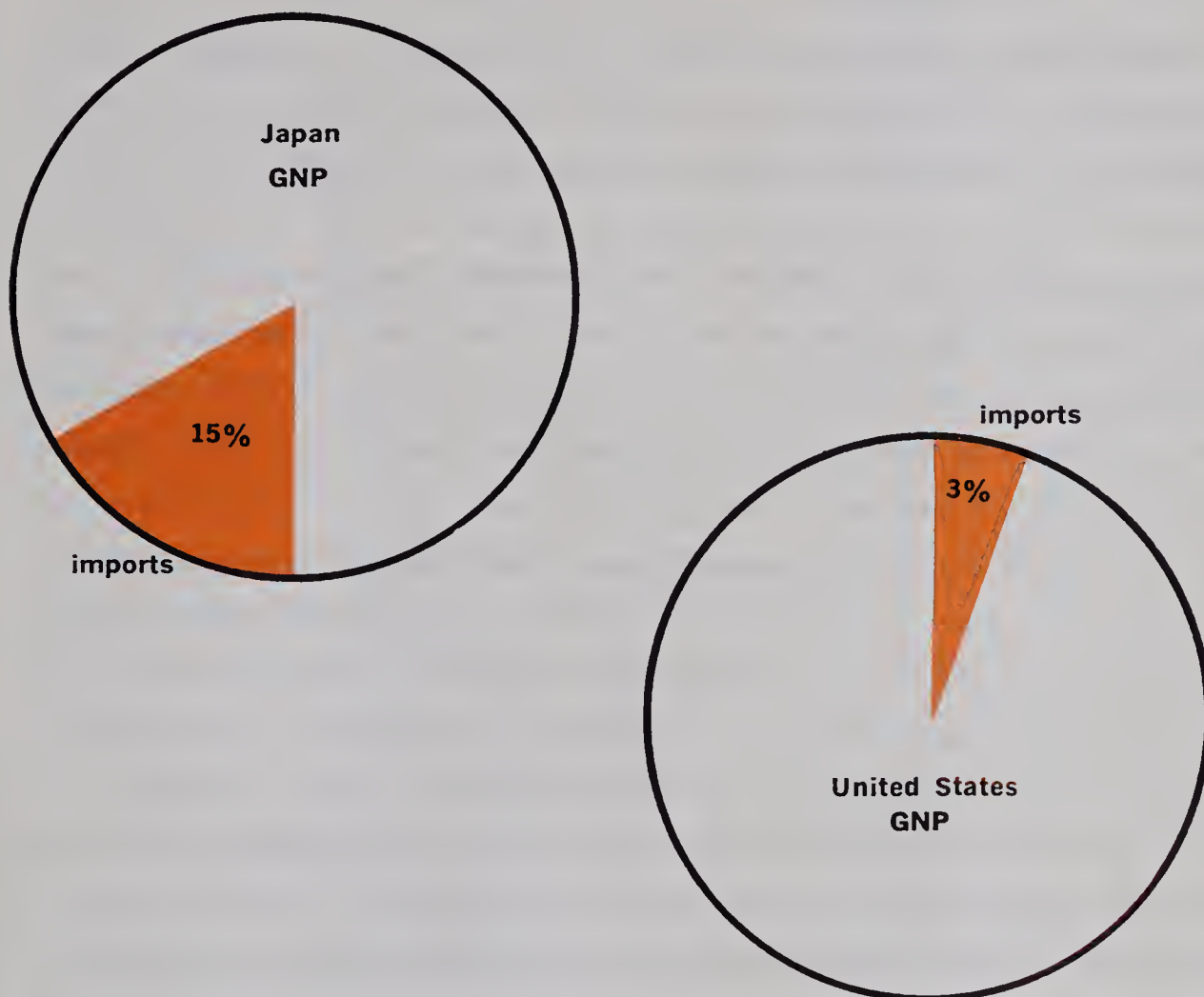
Generally, the jobs and businesses lost this way are not so valuable as those gained by increased exports to Japan. Still, the problem of the people who lose is real, and they may not be able to get jobs or do business in the lines that are gaining. Some

Jobs Created by Exports to Japan



displaced workers have a hard time getting any job at all. So, as we saw earlier, in order to protect these businesses the United States has sometimes raised trade barriers, though not often. Now the Federal government is also trying to help displaced workers learn new skills, so as to be able to find new jobs.

Imports — Per Cent of Gross National Product



American Interference With Japanese Exports Of Cotton Textiles

During the past decade the most serious steps taken by Americans to check the growth of Japanese exports have concerned cotton textiles. By the middle 1950's, Japanese economic recovery had reached the point where many Japanese factories could produce goods of the quality and price that would attract American customers. This was especially true in cotton textiles. Japan had been the world's largest exporter of cotton products in the 1930's. Its textile industry was one of the first to modernize after World War II.

These figures show how imports of cotton goods into the United States from Japan rose:

1952	\$12 million
1953	19 "
1954	26 "
1955	60 "
1956	84 "

By 1954, American textile men began to complain. They demanded protection from these imports. To make matters worse for these businessmen, the government was planning to lower tariffs on cotton goods. In spite of the businessmen's urgings, the tariffs were cut, not raised. President Eisenhower and the State Department were more worried about how Japan might pay its way in the world than about what these imports were doing to the multi-billion-dollar cotton textile industry in the United States.

In 1956 the textile people got some support from Congress. A new law gave the President power to negotiate with foreign countries to get them to limit their exports of certain things to the United States. Congress defeated by only two votes a proposal to impose quotas to limit imports of cotton textiles.

All the while, the textile industry was complaining bitterly about rising imports. Although these imports were less than 5 per cent of the total domestic production of all cotton products, some particular imports were larger. Imports of velveteens, for instance, grew to a level that was more than half as large as our total production. United States cotton manufacturers also had problems at home, because of changing styles, automation, and the shift of many factories from New England to South Carolina and other locations in the South.

So in 1956 the Department of State asked the Japanese government to place quotas on cotton textile exports to the United States. Although Japanese producers did not like the idea, after months of discussions, the Japanese government did impose export quotas. These went into effect in January, 1957, and have been in effect ever since, with some changes.

Although American textile manufacturers were delighted, the Japanese quotas did not please American importers of cotton products. The importers found they could not satisfy their customers with the reduced quantities coming in from Japan. So the importers looked around for other foreign sources. Hong Kong producers proved able to provide satisfactory goods very cheaply. So did a few producers in other countries, such as India, Pakistan, Taiwan, Spain, Portugal, and Egypt. While imports of cotton goods from Japan have stayed a little below their 1956 level, imports from these other countries have climbed steeply.

As total imports rose, so did the clamor and protest from American cotton manufacturers. By the spring of 1961 it seemed to President Kennedy that the time had come to act. In May he announced a list of measures to help the cotton textile industry. One of these was international quotas. Countries exporting or importing cotton textiles have since agreed, at American request, to a system of quotas.

Under this international quota system a country that feels imports are disrupting its markets may ask exporting countries to cut back exports. If the exporting countries do not comply, then the importing country may impose its own import quotas, under certain restrictions. All quotas are supervised by the GATT (the international committee called the General Agreement on Tariffs and Trade).

This quota system is the most extreme of all measures the United States has taken to restrict imports from Japan. Japanese producers of cotton products have been angry at times. So have producers in other countries, especially Hong Kong. Imports still make up less than 10 per cent of our domestic production of cotton textiles. Japanese and other foreign producers feel they need the business and that Americans can easily shift to other industries, like electronics or machinery. These pay much higher wages than textile mills do. But American textile people still do not want to shift to other work.

Partly the problem is a matter of principle. The United

States wants to be able to export farm products, automobiles, and other things to other countries without unreasonable interference. Our farm exports to Europe are now threatened because of new tariffs in the European Common Market. Americans object to this. Throughout the postwar years the United States has led the world in trying to reduce and remove barriers to international trade and to increase the volume of trade. The United States has been the strongest supporter of GATT as an international organization for freeing trade from unnecessary barriers. So it must be very embarrassing for American representatives to ask GATT to sponsor this textile agreement. It raises trade barriers instead of reducing them, and restricts trade instead of expanding it.

Fortunately for Japan and for Japanese-American friendship, the cotton textile quotas are the only really serious formal check on United States imports from Japan. Fortunately, also, Japanese producers make many other things to sell in the United States, more every year. Sales of these other products have gone up fast enough so that Japan has not suffered severely in terms of total export growth.

JAPANESE-AMERICAN COOPERATION

Cooperation makes Japan unusually important and helpful to the United States. In the cotton textile question, if the Japanese had stood on principle, they could have been far more unpleasant than they were. (Hong Kong in fact proved much harder to deal with than Japan.)

There are other, happier, matters on which Japan is cooperating with the United States. As we saw earlier, Japan is a member of the committee of the OECD (Organization for Economic Cooperation and Development) in which countries try to make their foreign aid programs fit together. In the past Japan has been too poor to give much aid. But now that Japan is no longer so poor, Japanese aid is getting larger. We Americans are urging the Japanese to do more in helping the under-

developed countries improve their economies. And the Japanese are doing more—slowly, but carefully.

India provides an example of how Japan and America are cooperating in giving aid to developing countries. The Indian Five Year Plans call for far more imported food, raw materials, and equipment than India can afford. So a number of countries have joined together to help India. Japan and the United States are two of them. This kind of cooperation offers hope as well as help to India. Perhaps in the years ahead Japan and America can do more to help build up new nations. And, in time, perhaps India will be able to join in helping others. In this way many millions of people in many lands may be able to live better lives.

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1. What influences do the Japanese and American markets have on each other?
 2. How does "orderly marketing" work? Why was it needed?
 3. The United States was one of the primary world advocates of reduced trade barriers. Why, then, did the United States seek international quotas to cover trade in cotton textiles?
 4. For the underdeveloped nations of the world, what are the implications of Japan's economic growth?



CONCLUSION

As people live better, they may become more peaceful (although unfortunately that does not always happen). The Japanese, in any case, are now living far better than ever before. They have had more than their fill of suffering in war and especially hate nuclear weapons. They will not forget or let us forget that we are the only country that has ever used such weapons. The Japanese are the only people to be hurt by them.

As people grow richer, they can trade more. The Japanese market for American trade is a good example. As other countries develop, they, too, will probably become better markets for American products.

Many countries are being tempted to go socialist or communist. Socialism has great influence in India. China is communist. Japan has a growing socialist minority. If Japanese-American cooperation continues, and if Japanese prosperity grows under private enterprise, then the trend toward socialism in Japan may slow down. The successful example of Japanese private enterprise and more Japanese aid may show the way of economic growth to other countries. We cannot be sure. But we can be fairly sure that should an economic disaster hit Japan—perhaps a bad depression—then socialism, perhaps even communism, would become a good deal more likely.

For the first time, an Asian people has climbed out of traditional Asian poverty to such affluence as only American, European, and a few other countries of European heritage have ever tasted before.

This Japanese record does not rest on rich mineral re-

sources but on hard and effective work. Most of Japan's production equipment and public facilities have been paid for not by foreign loans and investments but by the tax payments and savings of the Japanese people themselves. Public and private saving takes a higher proportion of the country's total income than in other countries—far higher than in the United States and higher even than what the Russians and Chinese have been able to squeeze from their people by the most ruthless and brutal methods.

Japan has much to teach the countries that are only now beginning to modernize their primitive economies. Japanese methods, management, saving, financial controls, and production methods could help development in these countries. Discipline and group action are not nearly so effective in most underdeveloped countries as they are in Japan. And many of these countries are in dire need of larger export earnings to finance necessary imports. Japan's success in selling exports abroad is a hopeful sign for developing countries. When they, too, can make products that are good enough and cheap enough to attract American customers, the United States government will probably not interfere by putting up tariffs or other import barriers. Japan is earning much through exports; other countries could, too, if they had the right things to sell.

In an uncertain, unhappy and hungry world, Japan is one of the few really prosperous countries, one that Americans can live with most easily and comfortably. If both countries continue to prosper and to cooperate, we may be able to make the world a safer and more comfortable place in which to live.

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1. What was the relationship between Japan's dependence on world trade and the outbreak of World War II?
 2. How do the Japanese per capita income and general standard of living compare with those of other Asiatic countries?
 3. Japan has a "mixed" economy. Compare the degree of mix of private enterprise and government in Japan with that in the United States; with that in Russia.
 4. Japan's yearly rate of population growth is lower than that in any other country of the Middle or Far East. What does this imply for her economic growth? How does her population growth rate compare with that of the United States?
 5. Japan buys cotton from the United States, makes it into cotton fabrics, and then ships these fabrics back for sale in the United States. What makes it possible for Japan to sell the fabrics at prices that are lower than those of similar fabrics manufactured in the United States? How do American textile manufacturers react to this? How do American importers react to this? What did the U.S. government do to resolve the conflict between American groups? What did Japan do? Why?
 6. Why is Japan permitted only partial membership in OECD? How does Japan interpret this?
 7. How was Japan able to increase its productivity beyond its people's needs?
 8. At present certain Japanese goods successfully compete with American goods in American markets. What changes in this competition will probably take place in another decade?
 9. Japan, because of her location, has been called the "doorway to Asia." What are the political and economic implications for Japan?

HC

Humboldt, W.S.

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